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# CITY OF TRAVERSE CITY, MICHIGAN

28-2010



## FINANCIAL STATEMENTS

**For the Fiscal Year Ended  
June 30, 2004**



**REHMANN ROBSON**  
*Certified Public Accountants*

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CITY OF TRAVERSE CITY</b>	County <b>GRAND TRAVERSE</b>
Audit Date <b>06/30/04</b>	Opinion Date <b>11/19/04</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>REHMANN ROBSON</b>			
Street Address <b>250 E FRONT ST, 2ND FL</b>	City <b>TRAVERSE CITY</b>	State <b>MI</b>	ZIP <b>49684</b>
Accountant Signature <i>Annette Eustice, CPA, CGFM</i>			

## **FINANCIAL SECTION**



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

## INDEPENDENT AUDITORS' REPORT

November 19, 2004

The Honorable Mayor and  
Members of the City Commission  
City of Traverse City  
Grand Traverse County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Traverse City, Michigan* (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the *Traverse City Housing Commission* discrete component unit, which represents 4.7 percent and 5 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the *Traverse City Housing Commission* discrete component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Traverse City, Michigan*, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general and special revenue major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3-12 and the pension information on page 61 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Traverse City, Michigan's*, basic financial statements. The combining and individual nonmajor fund financial statements and schedules, and the statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly we express no opinion on them.

*Lehmann Johnson*

## Management's Discussion and Analysis

As management of the *City of Traverse City, Michigan* (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004.

### Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$81,941,195 (*net assets*). Of this amount, \$16,050,097 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$379,209.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$20,911,017, a decrease of \$2,234,833 in comparison with the prior year.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$2,432,166 or 21 percent of total general fund expenditures and transfers out.
- The City's total long-term debt decreased by \$1,016,197 due to payments of principal on current debt. There were no new debt issues during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and recreation and culture. The business-type activities of the City include wastewater, water, marina and auto parking system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities – the Downtown Development Authority, Traverse City Light and Power and The Traverse City Housing Commission which are discretely presented component units of the City. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-15 of this report.

### **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, Local Street, Public Improvement, and Brown Bridge Trust Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16-22 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water, marina and auto parking system operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its municipal garage and employee health benefit activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater, water, marina, and auto parking system, each of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 23-28 of this report.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31-60 of this report.

## **Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds is presented following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 61-91 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Traverse City, assets exceeded liabilities by \$81,941,195 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (67 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Traverse City's Net Assets

	2004			2003		
	<u>Governmental Activities</u>	<u>Business type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and other assets	\$ 25,593,831	\$ 6,911,539	\$ 32,505,370	\$28,669,592	\$12,524,444	\$ 41,194,036
Capital assets	<u>35,887,038</u>	<u>51,726,212</u>	<u>87,613,250</u>	<u>34,998,584</u>	<u>45,262,056</u>	<u>80,260,640</u>
Total assets	<u>61,480,869</u>	<u>58,637,751</u>	<u>120,118,620</u>	<u>63,668,176</u>	<u>57,786,500</u>	<u>121,454,676</u>
Long-term liabilities outstanding	11,583,144	21,857,674	33,440,818	11,667,957	22,772,995	34,440,952
Other liabilities	<u>1,875,412</u>	<u>2,861,195</u>	<u>4,736,607</u>	<u>2,031,597</u>	<u>3,109,221</u>	<u>5,140,818</u>
Total liabilities	<u>13,458,556</u>	<u>24,718,869</u>	<u>38,177,425</u>	<u>13,699,554</u>	<u>25,882,216</u>	<u>39,581,770</u>
Net assets						
Invested in capital assets, net of related debt	24,927,038	29,946,329	54,873,367	26,078,470	29,649,975	55,728,445
Restricted assets	9,264,184	1,753,547	11,017,731	9,050,987	7,208,726	16,259,713
Unrestricted	<u>13,831,091</u>	<u>2,219,006</u>	<u>16,050,097</u>	<u>14,839,165</u>	<u>(4,954,417)</u>	<u>9,884,748</u>
Total net assets	<u>\$ 48,022,313</u>	<u>\$33,918,882</u>	<u>\$ 81,941,195</u>	<u>\$49,968,622</u>	<u>\$31,904,284</u>	<u>\$ 81,872,906</u>

The remaining balance of *unrestricted net assets* (21 percent or \$16,050,097) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the governmental and business type activities.

The government's net assets decreased by \$379,209 during the current fiscal year. The only increase is attributable to growth in business type activities which largely reflects the degree to which ongoing revenues exceeded ongoing expenses. The governmental activities actually reported a decrease of \$1,946,309 in net assets.

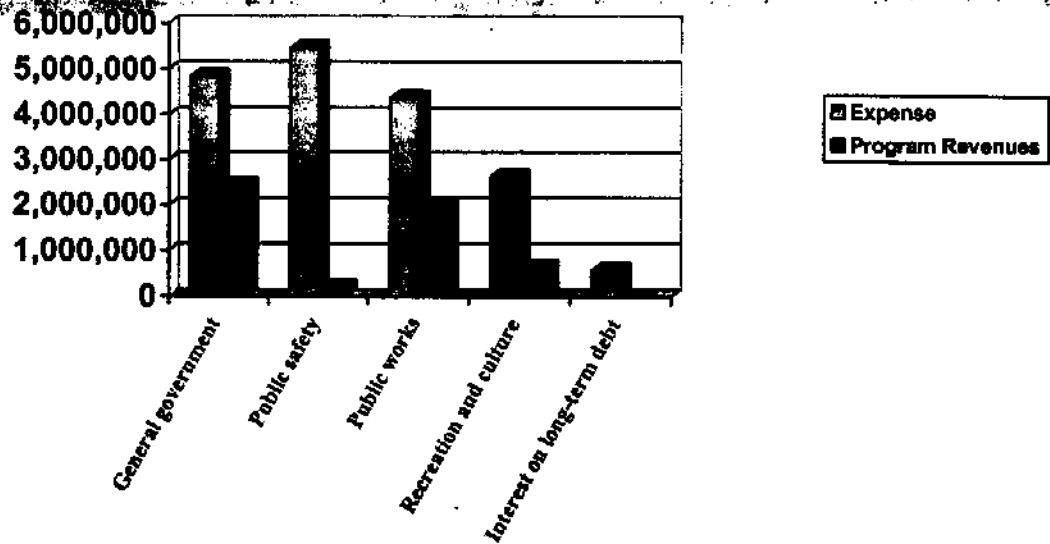
### City of Traverse City's Changes in Net Assets

	2004			2003		
	Governmental Activities	Business type Activities	Total	Governmental Activities	Business-type Activities	Total
Program revenue						
Charges for services	\$ 2,143,885	\$ 7,557,868	\$ 9,701,753	\$ 2,424,300	\$ 7,925,421	\$ 10,349,721
Operating grants and contributions	1,830,278	-	1,830,278	2,165,533	-	2,165,533
Capital grants and contributions	1,299,220	561,712	1,860,932	2,925,738	14,632,901	17,558,639
General revenue						
Property taxes	8,525,396	-	8,525,396	7,674,034	-	7,674,034
Grants and contributions not restricted to specific programs	1,422,431	-	1,422,431	1,578,468	-	1,578,468
Franchise Revenue	170,092	-	170,092	165,992	-	165,992
Other	525,460	337,758	863,218	966,857	85,404	1,052,261
<b>Total revenue</b>	<b>15,916,762</b>	<b>8,457,338</b>	<b>24,374,100</b>	<b>17,900,922</b>	<b>22,643,726</b>	<b>40,544,648</b>
Expenses						
General government	4,841,050	-	4,841,050	1,207,376	-	1,207,376
Public safety	5,454,347	-	5,454,347	5,037,818	-	5,037,818
Public works	4,362,558	-	4,362,558	10,852,646	-	10,852,646
Recreation and culture	2,644,272	-	2,644,272	4,933,541	-	4,933,541
Interest on long-term debt	560,844	-	560,844	775,247	-	775,247
Wastewater	-	3,555,974	3,555,974	-	3,317,257	3,317,257
Water	-	1,936,586	1,936,586	-	1,894,817	1,894,817
Marina	-	522,640	522,640	-	451,245	451,245
Auto Parking	-	875,038	875,038	-	405,744	405,744
<b>Total expenses</b>	<b>17,863,071</b>	<b>6,890,238</b>	<b>24,753,309</b>	<b>22,806,628</b>	<b>6,069,063</b>	<b>28,875,691</b>
Increase (decrease) in net assets before transfers	(1,946,309)	1,567,100	(379,209)	(4,905,706)	16,574,663	11,668,957
Transfers	-	-	-	-	-	-
Increase (decrease) in net assets	(1,946,309)	1,567,100	(379,209)	(4,905,706)	16,574,663	11,668,957
Net assets – beginning of year	49,968,622	32,351,782	82,320,404	54,874,328	15,329,621	70,203,949
<b>Net assets – end of year</b>	<b>\$48,022,313</b>	<b>\$33,918,882</b>	<b>\$81,941,195</b>	<b>\$49,968,622</b>	<b>\$31,904,284</b>	<b>\$ 81,872,906</b>

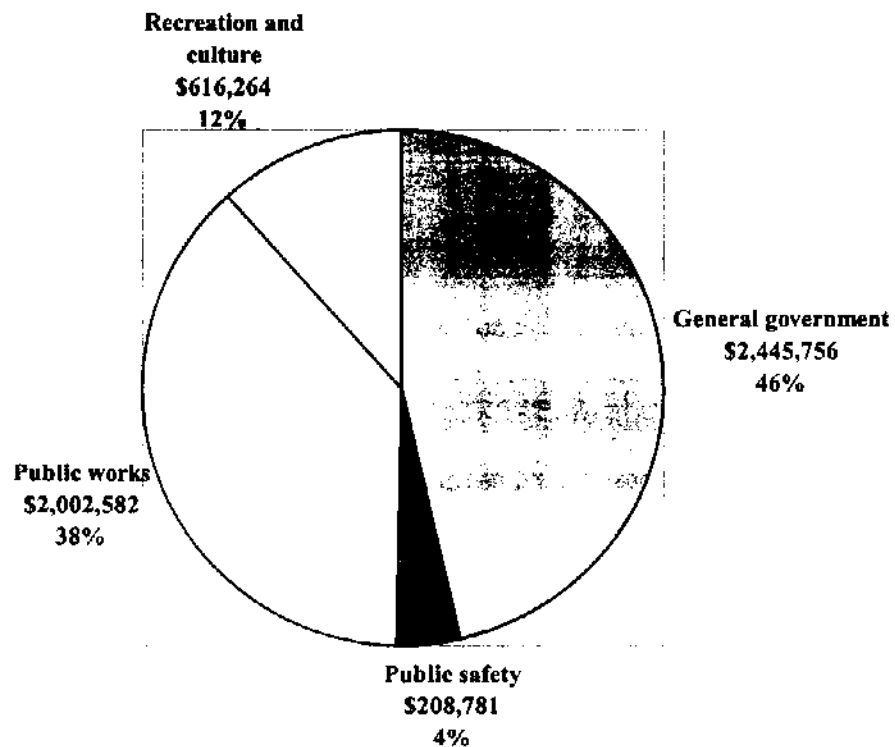
**Governmental activities.** Governmental activities decreased the City's net assets by \$1,946,309, accounting for negative growth in the net assets of the City. Key elements of this decrease are as follows:

- Total expenses for the General Fund were \$928,868 higher than the previous year. However, revenue was also \$442,832 higher than the previous year.
- Total expenses for the Major Street Fund were \$125,495 higher than the previous year as more effort was placed on major street maintenance.

## Expenses and Program Revenues – Governmental Activities



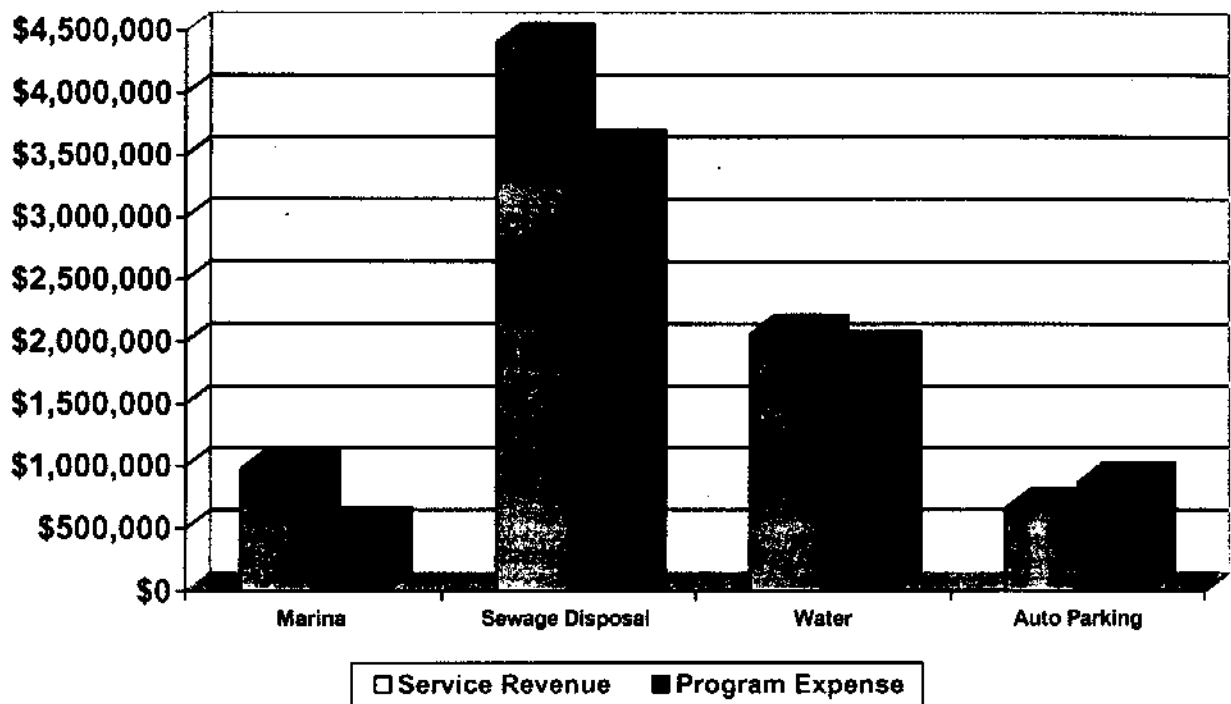
## Revenues by Source – Governmental Activities



Business-type activities increased the City's net assets by \$1,567,100, accounting for any and all growth in the government's net assets for the current year. Key elements of this increase are as follows:

- Non-operating revenue of \$555,021 from the State of Michigan for reimbursement of renovation of the marina provided for all of the \$455,316 change in net assets in the marina fund.
- The change in net assets in the Wastewater Fund of \$895,484 helps to provide for payment of principal on long-term debt outstanding.

#### **Expenses and Program Revenues - Business-type Activities**



## **Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$20,911,017, a decrease of \$2,234,833 in comparison with the prior year. About \$10,468,460 constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$2,432,166. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 20 percent of total general fund expenditures including transfers out.

The fund balance of the City's general fund decreased by \$359,582 during the current fiscal year. This is primarily attributable to slow growth in property tax revenues, a decrease in State Revenue Sharing, and a decrease in interest earnings.

The major street fund has a total fund balance of \$338,348 which decreased by \$69,425 during the year. Original budget estimates anticipated a reduction to fund balance due to various maintenance activities.

The local street fund has a fund balance for the current year of \$0. All expenses not covered by state sources are covered by the general fund via a transfer of funds.

*Proprietary funds.* The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the wastewater, water, marina and auto parking system funds at the end of the year amounted to \$2,188,276, with capital assets net of related debt of \$29,946,329. The Water Fund had an increase in net assets for the year of \$132,000, the Wastewater Fund had an increase of \$895,484, the Marina Fund increased \$455,316, and the Auto Parking System had an increase in net assets of \$73,965.

## **General Fund Budgetary Highlights**

During the year, general fund revenues were under budgetary estimates by \$91,211 while other financing sources, namely net transfers were also under budgetary estimates by \$201,514. In addition, actual expenditures were under budgetary estimates by \$470,015. As a result, the fund balance decreased by only \$359,582 which was less than the budgeted estimate of \$580,318.

## **Capital Asset and Debt Administration**

*Capital assets.* The City's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounted to \$87,613,250 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 9.1 percent (a 2.5 percent increase for governmental activities and a 14.3 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- A renovation of the Wastewater Treatment Plant with an approximate cost of \$5,911,433.
- A renovation of the Marina with an approximate cost of \$900,435.
- The purchase of new vehicles, including a fire truck, with an approximate cost of \$2,229,187.

**City of Traverse City's Capital Assets**  
(net of depreciation)

	2004			2003		
	<u>Governmental Activities</u>	<u>Business type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$11,161,813	\$ 965,044	\$12,126,857	\$11,030,030	\$ 965,044	\$11,995,074
Land improvement	1,520,998	8,376,302	9,897,300	1,429,352	7,477,613	8,906,965
Buildings and systems	10,264,396	8,640,143	18,904,539	10,362,883	8,924,479	19,287,362
Construction in progress	-	17,267,833	17,267,833	-	11,886,193	11,886,193
Equipment	4,806,652	5,573,196	10,379,848	3,443,220	4,943,995	8,387,215
Infrastructure and other improvements	<u>8,133,179</u>	<u>10,903,694</u>	<u>19,036,873</u>	<u>8,733,099</u>	<u>11,064,732</u>	<u>19,797,831</u>
<b>TOTAL</b>	<b><u>\$35,887,038</u></b>	<b><u>\$51,726,212</u></b>	<b><u>\$87,613,250</u></b>	<b><u>\$34,998,584</u></b>	<b><u>\$45,262,056</u></b>	<b><u>\$80,260,640</u></b>

Additional information on the City's capital assets can be found in Note III.C on pages 42-46 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt and lease payables of \$32,739,883. Of this amount, \$10,960,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents capital leases and bonds secured solely by specified revenue sources (i.e., revenue bonds).

**City of Traverse City's Outstanding Debt**  
General Obligation and Revenue Bonds

	2004			2003		
	<u>Governmental Activities</u>	<u>Business type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$10,960,000	\$ -	\$10,960,000	\$11,070,000	\$ -	\$ 11,070,000
Lease payable	-	19,954,883	19,954,883	-	20,711,080	20,711,080
Revenue bonds	-	<u>1,825,000</u>	<u>1,825,000</u>	-	<u>1,975,000</u>	<u>1,975,000</u>
<b>TOTAL</b>	<b><u>\$10,960,000</u></b>	<b><u>\$21,779,883</u></b>	<b><u>\$32,739,883</u></b>	<b><u>\$11,070,000</u></b>	<b><u>\$22,686,080</u></b>	<b><u>\$ 33,756,080</u></b>

The City's total debt decreased by \$1,016,197 net after payments during the current fiscal year as a result of no new debt issuance.

The City has a "A" rating from Standard & Poor's for its Electric Revenue Bond issue and a "AAA" rating from Fitch and Standard and Poors for the LTGO Bond issue for the parking deck.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$56,327,464, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III.F on pages of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- An increase of 10% in health care costs were factored in all budgets.
- An additional revenue reduction of 14% of State Revenue Sharing monies is factored in the budget.
- Current labor contracts with the various union bargaining groups will result in wage increases. These are also factored in the budget.

During the current fiscal year, unreserved fund balance in the general fund totaled \$3,426,866. The City has appropriated approximately \$994,700 of this amount for spending in the 2004-05 fiscal year budgets. Such appropriations are intended to finance part of various capital acquisitions and improvements, to which the General Fund contributes \$288,400.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 400 Boardman Avenue, Traverse City, Michigan 49684 or via email or by visiting our website at for additional supplemental budgetary information.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Net Assets**  
**June 30, 2004**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 8,348,293	\$ 2,919,826	\$ 11,268,119
Investments	14,842,045	467,968	15,310,013
Receivables, net	1,408,950	1,592,467	3,001,417
Due from component unit	668,195	-	668,195
Advances to primary government	-	-	-
Internal balances	114,451	(114,451)	-
Inventories	164,594	109,535	274,129
Prepaid items and other assets	47,303	32,647	79,950
Restricted assets	-	1,903,547	1,903,547
Land	11,619,344	965,044	12,584,388
Construction in progress	-	17,267,833	17,267,833
Capital assets, net	24,267,694	33,493,335	57,761,029
<b>Total assets</b>	<b>61,480,869</b>	<b>58,637,751</b>	<b>120,118,620</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	1,756,582	361,195	2,117,777
Deferred revenue	-	-	-
Due to primary government	-	-	-
Advances from component units	118,830	2,500,000	2,618,830
Long-term liabilities			
Due within one year	38,407	1,056,888	1,095,295
Due in more than one year	11,544,737	20,800,786	32,345,523
<b>Total liabilities</b>	<b>13,458,556</b>	<b>24,718,869</b>	<b>38,177,425</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	24,927,038	29,946,329	54,873,367
Restricted for			
Debt service	-	132,330	132,330
Capital projects	-	1,621,217	1,621,217
Nonexpendable brown bridge trust	8,734,671	-	8,734,671
Nonexpendable cemetery perpetual trust	529,513	-	529,513
Unrestricted	13,831,091	2,219,006	16,050,097
<b>Total net assets</b>	<b>\$ 48,022,313</b>	<b>\$ 33,918,882</b>	<b>\$ 81,941,195</b>

The accompanying notes are an integral part of these financial statements.

Component Units		
Downtown Development Authority	Light and Power	Housing Commission
\$ 767,449	\$ 4,382,900	\$ 241,409
-	10,815,289	46,848
1,828,680	2,468,400	102,867
-	-	-
-	2,618,830	-
-	-	-
-	700,150	-
955	84,377	12,619
-	650,419	27,955
-	843,174	297,665
-	1,579,283	-
-	31,366,306	2,133,061
<u>2,597,084</u>	<u>55,509,128</u>	<u>2,862,424</u>
226,285	2,037,024	165,544
-	-	5,603
450,000	196,695	21,500
-	-	-
-	312,702	-
28,316	633,601	3,723
<u>704,601</u>	<u>3,180,022</u>	<u>196,370</u>
-	33,183,763	2,133,061
-	337,717	-
-	-	-
-	-	-
1,892,483	18,807,626	532,993
<u>\$ 1,892,483</u>	<u>\$ 52,329,106</u>	<u>\$ 2,666,054</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental activities					
General government	\$ 4,841,050	\$ 836,233	\$ 346,125	\$ 1,263,398	\$ (2,395,294)
Public safety	5,454,347	80,018	92,941	35,822	(5,245,566)
Public works	4,362,558	687,765	1,314,817	-	(2,359,976)
Recreation and cultural	2,644,272	539,869	76,395	-	(2,028,008)
Interest on long-term debt	560,844	-	-	-	(560,844)
Total governmental activities	<u>17,863,071</u>	<u>2,143,885</u>	<u>1,830,278</u>	<u>1,299,220</u>	<u>(12,589,688)</u>
Business-type activities					
Wastewater	3,555,974	4,412,495	-	-	856,521
Water	1,936,586	2,064,684	-	-	128,098
Marina	522,640	416,891	-	557,902	452,153
Autoparking	875,038	663,798	-	3,810	(207,430)
Total business-type activities	<u>6,890,238</u>	<u>7,557,868</u>	<u>-</u>	<u>561,712</u>	<u>1,229,342</u>
<b>Total primary government</b>	<u>\$ 24,753,309</u>	<u>\$ 9,701,753</u>	<u>\$ 1,830,278</u>	<u>\$ 1,860,932</u>	<u>\$ 11,360,346</u>
<b>Component units</b>					
Downtown development authority	\$ 1,674,432	\$ 389,255	\$ -	\$ -	\$ (1,285,177)
Light and power	21,483,058	22,895,060	-	-	1,412,002
Housing commission	1,886,352	356,460	1,306,006	-	(223,886)
<b>Total component units</b>	<u>\$ 25,043,842</u>	<u>\$ 23,640,775</u>	<u>\$ 1,306,006</u>	<u>\$ -</u>	<u>\$ (97,061)</u>

Continued...

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2004**

Functions/Programs	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Changes in net assets</b>			
Net (expense) revenue	\$ (12,589,688)	\$ 1,229,342	\$ (11,360,346)
General revenues			
Taxes			
Property taxes	8,525,396	-	8,525,396
Grants and contributions not restricted to specific programs	1,422,431	-	1,422,431
Franchise revenue	170,092	-	170,092
Unrestricted investment earnings	436,743	63,306	500,049
Gain on sale of capital assets	82,349	274,452	356,801
Contribution to endowment	6,368	-	6,368
<b>Total general revenues and contributions</b>	<b>10,643,379</b>	<b>337,758</b>	<b>10,981,137</b>
Change in net assets	(1,946,309)	1,567,100	(379,209)
Net assets, beginning of year, as restated	49,968,622	32,351,782	82,320,404
<b>Net assets, end of year</b>	<b>\$ 48,022,313</b>	<b>\$ 33,918,882</b>	<b>\$ 81,941,195</b>

The accompanying notes are an integral part of these financial statements.

Component Units		
Downtown Development Authority	Light and Power	Housing Commission
\$ (1,285,177)	\$ 1,412,002	\$ (223,886)
978,038	-	-
-	-	116,231
8,601	313,120	1,925
-	-	-
986,639	313,120	118,156
(298,538)	1,725,122	(105,730)
2,191,021	50,603,984	2,771,784
<u>\$ 1,892,483</u>	<u>\$ 52,329,106</u>	<u>\$ 2,666,054</u>

Concluded

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2004**

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>
<b>ASSETS</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 732,999	\$ 132,937	\$ -
Investments	2,257,304	-	-
Receivables			
Accounts			
Taxes	88,393	-	-
Special assessments	96,775	-	-
Due from other governments	-	-	-
Due from other funds	471,139	173,494	-
Due from component unit	255,319	70,000	46,358
Inventories	218,195	-	-
Prepaid items and other assets	47,410	-	-
	43,656	-	-
<b>Total assets</b>	<b>\$ 4,211,190</b>	<b>\$ 376,431</b>	<b>\$ 46,358</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ 143,671	\$ 22,147	\$ 10,457
Accrued and other liabilities	306,833	15,936	11,976
Due to other funds	70,000	-	23,925
Deposits payable	75,979	-	-
Advance from component unit	-	-	-
Deferred revenue	-	-	-
	96,775	-	-
<b>Total liabilities</b>	<b>693,258</b>	<b>38,083</b>	<b>46,358</b>
<b>Fund balance</b>			
Reserved for			
Perpetual care	-	-	-
Recreation and culture	-	-	-
Prepaid items	-	-	-
Inventories	43,656	-	-
Unreserved	47,410	-	-
Designated for subsequent years' expenditures			
Undesignated	994,700	92,350	-
Undesignated, reported in nonmajor	2,432,166	245,998	-
Special revenue funds	-	-	-
Capital projects funds	-	-	-
<b>Total fund balance</b>	<b>3,517,932</b>	<b>338,348</b>	<b>-</b>
<b>Total liabilities and fund balance</b>	<b>\$ 4,211,190</b>	<b>\$ 376,431</b>	<b>\$ 46,358</b>

The accompanying notes are an integral part of these financial statements.

Public Improvement	Brown Bridge Trust Fund	Other Governmental Funds	Total
\$ 1,283,211	\$ 52,105	\$ 3,758,364	\$ 5,959,616
1,066,944	8,699,457	2,025,588	14,049,293
-	42,679	2,000	133,072
-	-	7,039	103,814
-	-	431,104	431,104
-	-	45,991	736,982
-	-	1,772	327,091
-	-	450,000	668,195
-	-	-	47,410
-	-	257	43,913
<u>\$ 2,350,155</u>	<u>\$ 8,794,241</u>	<u>\$ 6,722,115</u>	<u>\$ 22,500,490</u>

\$ 117,333	\$ -	\$ 133,586	\$ 427,194
-	-	41,766	376,511
-	59,570	28,415	181,910
-	-	-	75,979
-	-	118,830	118,830
-	-	312,274	409,049
<u>117,333</u>	<u>59,570</u>	<u>634,871</u>	<u>1,589,473</u>

-	-	529,513	529,513
-	8,734,671	-	8,734,671
-	-	257	43,913
-	-	-	47,410
-	-	-	1,087,050
-	-	-	2,678,164
2,232,822	-	3,040,096	3,040,096
-	-	2,517,378	4,750,200
<u>2,232,822</u>	<u>8,734,671</u>	<u>6,087,244</u>	<u>20,911,017</u>
<u>\$ 2,350,155</u>	<u>\$ 8,794,241</u>	<u>\$ 6,722,115</u>	<u>\$ 22,500,490</u>

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2004**

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**Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets**

Fund balances - total governmental funds	\$ 20,911,017
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.	
Add: capital assets	
Subtract: accumulated depreciation	62,952,105 (32,925,393)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add: deferred property taxes	
Add: other deferred revenues	96,775 312,274
Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in internal service funds	8,367,678
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Subtract: bonds payable	
Subtract: compensated absences and other long-term liabilities	(10,960,000)
Subtract: accrued interest on long-term liabilities	(590,620) (141,523)
Net assets of governmental activities	<u>\$ 48,022,313</u>
	Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2004**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>
<b>Revenues</b>			
Property taxes and special assessments	\$ 6,964,990	\$ -	\$ -
Federal sources	37,243	-	-
State sources	1,422,431	966,836	347,981
Local sources	1,532,390	-	-
Charges for services	451,519	-	-
Licenses and permits	197,834	-	-
Fines and forfeits	78,822	-	-
Reimbursement	294,302	-	-
Contributions	-	-	-
Interest income	156,259	2,008	-
Other revenue	206,199	-	-
<b>Total revenues</b>	<u>11,341,989</u>	<u>968,844</u>	<u>347,981</u>
<b>Expenditures</b>			
Current expenditures			
General government	2,423,271	-	-
Public safety	5,630,071	-	-
Public works	907,073	1,108,269	983,953
Recreation and cultural	1,848,070	-	-
Debt service			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Capital outlay	-	-	-
<b>Total expenditures</b>	<u>10,808,485</u>	<u>1,108,269</u>	<u>983,953</u>
Excess (deficiency) of revenues over expenditures	<u>533,504</u>	<u>(139,425)</u>	<u>(635,972)</u>
<b>Other financing sources (uses)</b>			
Transfers in	267,596	70,000	635,972
Transfers out	(1,160,682)	-	-
<b>Total other financing sources (uses)</b>	<u>(893,086)</u>	<u>70,000</u>	<u>635,972</u>
<b>Net change in fund balances</b>	<u>(359,582)</u>	<u>(69,425)</u>	<u>-</u>
Fund balance, beginning of year	<u>3,877,514</u>	<u>407,773</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 3,517,932</u></u>	<u><u>\$ 338,348</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

<b>Public Improvement</b>	<b>Brown Bridge Trust</b>	<b>Other Governmental Funds</b>	<b>Total</b>
\$ -	\$ -	\$ 162,834	\$ 7,127,824
870,648	-	80,206	988,097
-	-	8,314	2,745,562
-	-	746,890	2,279,280
-	324,094	184,369	959,982
-	-	-	197,834
-	-	-	78,822
-	-	-	294,302
167,750	-	118,447	286,197
29,664	113,415	113,210	414,556
25,825	-	38,380	270,404
<b>1,093,887</b>	<b>437,509</b>	<b>1,452,650</b>	<b>15,642,860</b>
-	-	265,567	2,688,838
-	-	92,537	5,722,608
-	-	-	2,999,295
-	-	287,743	2,135,813
-	-	110,000	110,000
-	-	571,670	571,670
2,024,515	-	1,624,954	3,649,469
<b>2,024,515</b>	<b>-</b>	<b>2,952,471</b>	<b>17,877,693</b>
(930,628)	437,509	(1,499,821)	(2,234,833)
425,802	-	605,923	2,005,293
-	(230,981)	(613,630)	(2,005,293)
<b>425,802</b>	<b>(230,981)</b>	<b>(7,707)</b>	<b>-</b>
(504,826)	206,528	(1,507,528)	(2,234,833)
2,737,648	8,528,143	7,594,772	23,145,850
<b>\$ 2,232,822</b>	<b>\$ 8,734,671</b>	<b>\$ 6,087,244</b>	<b>\$ 20,911,017</b>

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2004**

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**Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds \$ (2,234,833)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	1,504,778
Subtract: depreciation expense	(1,899,231)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Subtract: prior year deferred property taxes and special assessments	(507,702)
Add: current year deferred property taxes and special assessments	409,049
Add: current principal debt payment	110,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: prior year accrued interest on bonds	152,349
Subtract: current year accrued interest on bonds	(141,523)
Subtract: increase in the accrual of compensated absences	(22,600)

Internal service funds are used by management to charge the costs of certain activities, such as equipment usage and employee benefits, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest revenue from governmental internal service funds	22,187
Add: other revenue from governmental internal service funds	46,092
Add: capital contribution from governmental internal service funds	225,000
Add: gain on disposal of capital assets in governmental internal service funds	79,276
Add: net operating income from governmental activities accounted for in internal service funds	310,849

<b>Change in net assets of governmental activities</b>	<b><u>\$ (1,946,309)</u></b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>				
Taxes	\$ 7,101,500	\$ 7,101,500	\$ 6,964,990	\$ (136,510)
Licenses and permits	174,050	174,050	197,834	23,784
Federal sources	35,000	35,000	37,243	2,243
State sources	1,533,500	1,533,500	1,422,431	(111,069)
Local sources	1,450,000	1,450,000	1,532,390	82,390
Charges for services	429,450	429,450	451,519	22,069
Fines and forfeits	87,000	87,000	78,822	(8,178)
Reimbursements	230,000	286,000	294,302	8,302
Interest income	120,000	120,000	156,259	36,259
Other revenue	16,400	216,700	206,199	(10,501)
<b>Total revenues</b>	<b>11,176,900</b>	<b>11,433,200</b>	<b>11,341,989</b>	<b>(91,211)</b>
<b>Expenditures</b>				
General government	2,523,100	2,563,100	2,423,271	(139,829)
Public safety	5,425,950	5,714,550	5,630,071	(84,479)
Public works	1,093,600	1,106,600	907,073	(199,527)
Recreation and culture	1,914,250	1,894,250	1,848,070	(46,180)
<b>Total expenditures</b>	<b>10,956,900</b>	<b>11,278,500</b>	<b>10,808,485</b>	<b>(470,015)</b>
<b>Excess (deficiency) of expenditures over revenues</b>	<b>220,000</b>	<b>154,700</b>	<b>533,504</b>	<b>378,804</b>
<b>Other financing sources (uses)</b>				
Transfers in	232,000	232,000	267,596	35,596
Transfers out	(1,316,900)	(1,326,600)	(1,160,682)	165,918
<b>Total other financing sources (uses)</b>	<b>(1,084,900)</b>	<b>(1,094,600)</b>	<b>(893,086)</b>	<b>201,514</b>
<b>Net change in fund balance</b>	<b>(864,900)</b>	<b>(939,900)</b>	<b>(359,582)</b>	<b>580,318</b>
<b>Fund balance, beginning of year</b>	<b>3,877,514</b>	<b>3,877,514</b>	<b>3,877,514</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 3,012,614</b>	<b>\$ 2,937,614</b>	<b>\$ 3,517,932</b>	<b>\$ 580,318</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Major Streets Special Revenue Fund**  
**For the Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>				
State sources	\$ 895,500	\$ 960,500	\$ 966,836	\$ 6,336
Interest income	2,500	2,500	2,008	(492)
<b>Total revenues</b>	<u>898,000</u>	<u>963,000</u>	<u>968,844</u>	<u>5,844</u>
<b>Expenditures</b>				
Public works				
Personnel	357,100	427,100	434,383	7,283
Commodities	109,900	109,900	83,288	(26,612)
Contractual services	90,500	90,500	94,660	4,160
Other charges	422,500	487,500	495,938	8,438
<b>Total expenditures</b>	<u>980,000</u>	<u>1,115,000</u>	<u>1,108,269</u>	<u>(6,731)</u>
Excess (deficiency) of expenditures over revenues	(82,000)	(152,000)	(139,425)	12,575
<b>Other financing sources</b>				
Transfers in	-	-	70,000	70,000
<b>Net change in fund balance</b>	<u>(82,000)</u>	<u>(152,000)</u>	<u>(69,425)</u>	<u>82,575</u>
Fund balance, beginning of year	407,773	407,773	407,773	-
<b>Fund balance, end of year</b>	<u>\$ 325,773</u>	<u>\$ 255,773</u>	<u>\$ 338,348</u>	<u>\$ 82,575</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Local Streets Special Revenue Fund**  
**For the Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenue</b>				
State sources	\$ 305,000	\$ 350,000	\$ 347,981	\$ 2,019
<b>Expenditures</b>				
Public works				
Personnel	517,000	517,000	452,646	(64,354)
Contractual services	47,000	67,000	53,002	(13,998)
Commodities	60,000	60,000	44,962	(15,038)
Other charges	495,000	520,000	433,343	(86,657)
<b>Total expenditures</b>	<b>1,119,000</b>	<b>1,164,000</b>	<b>983,953</b>	<b>(180,047)</b>
Excess (deficiency) of revenue over expenditures	(814,000)	(814,000)	(635,972)	178,028
<b>Other financing sources</b>				
Transfer in	814,000	814,000	635,972	(178,028)
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balance, beginning of year	-	-	-	-
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying financial statements are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2004**

	Enterprise Funds		
	Wastewater	Water	Marina
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 1,086,193	\$ 668,971	\$ 216,843
Investments	49,547	394,132	-
Receivables			
Accounts	471,907	330,488	1,932
Accrued interest	-	1,069	-
Due from other governmental units	-	-	-
Inventory	-	-	786,392
Prepaid items	-	96,130	13,405
	<u>27,784</u>	<u>2,950</u>	<u>1,343</u>
<b>Total current assets</b>	<u>1,635,431</u>	<u>1,493,740</u>	<u>1,019,915</u>
<b>Noncurrent assets</b>			
Restricted assets	1,621,217	282,330	-
Capital assets	<u>24,785,278</u>	<u>6,120,243</u>	<u>10,774,887</u>
<b>Total noncurrent assets</b>	<u>26,406,495</u>	<u>6,402,573</u>	<u>10,774,887</u>
<b>Total assets</b>	<u>28,041,926</u>	<u>7,896,313</u>	<u>11,794,802</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	50,367	82,683	22,500
Accrued expenses	132,225	49,643	8,752
Due to other funds	91,348	19,968	-
Current portion of accrued compensated absences	-	6,103	-
Current portion of long term debt	<u>900,785</u>	<u>150,000</u>	<u>-</u>
<b>Total current liabilities</b>	<u>1,174,725</u>	<u>308,397</u>	<u>31,252</u>
<b>Noncurrent liabilities</b>			
Advance from component unit	-	-	2,500,000
Long-term debt, net of current portion	19,054,098	1,675,000	-
Compensated absences, net of current portion	<u>15,077</u>	<u>52,448</u>	<u>1,412</u>
<b>Total liabilities</b>	<u>20,243,900</u>	<u>2,035,845</u>	<u>2,532,664</u>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	4,830,395	4,295,243	10,774,887
Restricted for			
Debt service	-	132,330	-
Capital projects	1,621,217	-	-
Unrestricted	<u>1,346,414</u>	<u>1,432,895</u>	<u>(1,512,749)</u>
<b>Total net assets</b>	<u>\$ 7,798,026</u>	<u>\$ 5,860,468</u>	<u>\$ 9,262,138</u>

The accompanying notes are an integral part of these financial statements.

<u>Automobile Parking System</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ 947,819	\$ 2,919,826	\$ 2,388,677
24,289	467,968	792,752
679	805,006	3,978
-	1,069	-
-	786,392	-
-	109,535	117,184
570	32,647	3,390
<u>973,357</u>	<u>5,122,443</u>	<u>3,305,981</u>
-	1,903,547	-
<u>10,045,804</u>	<u>51,726,212</u>	<u>5,860,326</u>
<u>10,045,804</u>	<u>53,629,759</u>	<u>5,860,326</u>
<u>11,019,161</u>	<u>58,752,202</u>	<u>9,166,307</u>
5,354	160,904	711,533
9,671	200,291	23,842
33,865	145,181	-
-	6,103	-
-	1,050,785	-
<u>48,890</u>	<u>1,563,264</u>	<u>735,375</u>
-	2,500,000	-
-	20,729,098	-
2,751	71,688	32,524
<u>51,641</u>	<u>24,864,050</u>	<u>767,899</u>
10,045,804	29,946,329	5,860,326
-	132,330	-
-	1,621,217	-
921,716	2,188,276	2,538,082
<u>\$ 10,967,520</u>	<u>\$ 33,888,152</u>	<u>\$ 8,398,408</u>

Continued....

**CITY OF TRAVERSE CITY, MICHIGAN**

**Statement of Net Assets**

**Proprietary Funds**

**June 30, 2004**

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**Reconciliation of Net Assets on the Statement of Net Assets for Enterprise  
Funds to Net Assets of Business-Type Activities on the Statement of Net  
Assets**

Net assets - enterprise funds \$ 33,888,152

Amounts reported for business-type activities in the statement of net assets  
are different because:

An internal service fund is used by management to charge the costs of  
certain equipment usage and employee benefits to individual proprietary funds. The assets  
and liabilities of the internal service fund are included in governmental  
activities in the statement of net assets.

Add - net assets of business-type activities accounted for in the internal service fund 30,730

Net assets of business-type activities \$ 33,918,882

Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	<b>Enterprise funds</b>		
	<b>Wastewater</b>	<b>Water</b>	<b>Marina</b>
<b>Operating revenues</b>			
Charges for services	\$ 4,203,159	\$ 1,972,965	\$ 406,440
Interdepartmental	2,200	-	-
Other revenue	207,136	91,719	13,332
<b>Total operating revenues</b>	<b>4,412,495</b>	<b>2,064,684</b>	<b>419,772</b>
<b>Operating expenses</b>			
Personnel	455,647	832,176	116,298
Commodities	14,947	133,782	9,071
Contractual services	2,065,447	249,949	101,383
Other charges	133,643	323,806	73,032
Benefit payments	-	-	-
Depreciation and amortization	212,065	286,989	130,606
<b>Total operating expenses</b>	<b>2,881,749</b>	<b>1,826,702</b>	<b>430,390</b>
Operating income (loss)	1,530,746	237,982	(10,618)
<b>Nonoperating revenues (expenses)</b>			
State sources	-	-	555,021
Local sources	-	-	-
Other revenue	-	-	-
Net increase (decrease) in fair value of investments	-	(2,980)	-
Interest income	41,124	13,536	3,163
Interest expense and financial charges	(676,386)	(116,538)	(92,250)
Loss on sale of capital assets	-	-	-
<b>Total nonoperating revenues (expenses)</b>	<b>(635,262)</b>	<b>(105,982)</b>	<b>465,934</b>
Change in net assets	895,484	132,000	455,316
Net assets, beginning of year, as restated	6,902,542	5,728,468	8,806,822
<b>Net assets, end of year</b>	<b>\$ 7,798,026</b>	<b>\$ 5,860,468</b>	<b>\$ 9,262,138</b>

The accompanying notes are an integral part of these financial statements

<b>Automobile</b>			
<b>Parking</b>			<b>Internal</b>
<b>System</b>	<b>Total</b>		<b>Service Funds</b>
\$ 647,118	\$ 7,229,682	\$ -	
-	2,200	2,415,101	
16,680	328,867	-	
<b>663,798</b>	<b>7,560,749</b>	<b>2,415,101</b>	
102,902	1,507,023	609,446	
15,487	173,287	397,487	
370,964	2,787,743	70,814	
188,029	718,510	196,790	
-	-	52,977	
199,176	828,836	766,403	
<b>876,558</b>	<b>6,015,399</b>	<b>2,093,917</b>	
(212,760)	1,545,350	321,184	
-	555,021	-	
3,810	3,810	225,000	
-	-	46,092	
-	(2,980)	-	
8,463	66,286	22,187	
-	(885,174)	-	
274,452	274,452	79,276	
<b>286,725</b>	<b>11,415</b>	<b>372,555</b>	
73,965	1,556,765	693,739	
10,893,555	32,331,387	7,704,669	
<b>\$ 10,967,520</b>	<b>\$ 33,888,152</b>	<b>\$ 8,398,408</b>	

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

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**Reconciliation of the Statement of Revenues, Expenses and Changes  
in Net Assets of Enterprise Funds to the Statement of Activities**

Change in net assets - all enterprise funds	\$ 1,556,765
---	--------------

An internal service fund is used by management to charge the costs of certain equipment usage and employee benefits to individual enterprise funds. The net revenue (expense) of the fund attributable to those funds is reported with business-type activities.

Add - net operating income from business-type activities in internal service fund	<u>10,335</u>
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Change in net assets of business-type activities	<u><u>\$ 1,567,100</u></u>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	Enterprise funds		
	Wastewater	Water	Marina
<b>Cash flows from operating activities</b>			
Cash received from interfund services	\$ -	\$ -	\$ -
Cash received from customers	4,668,589	2,072,286	418,240
Cash payments to suppliers for goods and services	(2,250,771)	(697,712)	(387,290)
Cash payments to employees for services	(458,318)	(845,341)	(129,145)
<b>Net cash provided by (used) in operating activities</b>	<b>1,959,500</b>	<b>529,233</b>	<b>(98,195)</b>
<b>Cash flows from non-capital financing activities</b>			
Advance to other funds	(521)	(2,842)	(711,642)
Cash paid from other revenue	-	-	-
<b>Net cash provided by (used in) by non-capital financing activities</b>	<b>(521)</b>	<b>(2,842)</b>	<b>(711,642)</b>
<b>Cash flows from capital and related financing activities</b>			
Capital contribution	-	-	2,015,603
Principal payments	(756,195)	(150,000)	-
Interest payments	(708,145)	(117,976)	(92,250)
Purchases of capital assets	(5,911,433)	(303,369)	(900,435)
Proceeds from sale of capital assets	-	-	-
<b>Net cash provided by (used in) by capital and related financing activities</b>	<b>(7,375,773)</b>	<b>(571,345)</b>	<b>1,022,918</b>
<b>Cash flows from investing activities</b>			
Interest received	41,124	10,556	3,162
Purchase of investments	-	-	-
Sale of investments	269	(42,735)	-
<b>Net cash provided by (used in) investing activities</b>	<b>41,393</b>	<b>(32,179)</b>	<b>3,162</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5,375,401)</b>	<b>(77,133)</b>	<b>216,243</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>8,082,811</b>	<b>1,028,434</b>	<b>600</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,707,410</b>	<b>\$ 951,301</b>	<b>\$ 216,843</b>
<b>Balance sheet classification of cash and cash equivalents</b>			
Cash and cash equivalents	\$ 1,086,193	\$ 668,971	\$ 216,843
Restricted assets	1,621,217	282,330	-
	<b>\$ 2,707,410</b>	<b>\$ 951,301</b>	<b>\$ 216,843</b>

The accompanying notes are an integral part of these financial statements.

<u>Automobile Parking System</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ -	\$ -	\$ 2,415,116
663,119	7,822,234	-
(586,880)	(3,922,653)	2,150
(98,136)	(1,530,940)	(667,192)
<u>(21,897)</u>	<u>2,368,641</u>	<u>1,750,074</u>
3,609	(711,396)	-
-	-	46,092
<u>3,609</u>	<u>(711,396)</u>	<u>46,092</u>
3,810	2,019,413	225,000
-	(906,195)	-
-	(918,371)	-
(148,800)	(7,264,037)	(2,229,187)
274,452	274,452	259,154
<u>129,462</u>	<u>(6,794,738)</u>	<u>(1,745,033)</u>
8,463	63,305	22,188
1,298	1,298	4,248
-	(42,466)	-
<u>9,761</u>	<u>22,137</u>	<u>26,436</u>
120,935	(5,115,356)	77,569
<u>826,884</u>	<u>9,938,729</u>	<u>2,311,108</u>
<u>\$ 947,819</u>	<u>\$ 4,823,373</u>	<u>\$ 2,388,677</u>
\$ 947,819	2,919,826	\$ 2,388,677
-	1,903,547	-
<u>\$ 947,819</u>	<u>\$ 4,823,373</u>	<u>\$ 2,388,677</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds (Concluded)**  
**For the Year Ended June 30, 2004**

	<u>Wastewater</u>	<u>Water</u>	<u>Marina</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ 1,530,746	\$ 237,982	\$ (10,618)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation and amortization	212,065	286,989	130,606
Changes in assets and liabilities			
Receivables	256,094	7,602	(1,532)
Prepaid cost and other assets	(26,673)	(316)	(722)
Inventories	-	(6,157)	(9,194)
Accounts payable	(10,061)	16,298	(193,888)
Accrued and other liabilities	(2,671)	(13,165)	(12,847)
<b>Net cash provided by (used in) operating activities</b>	<u><u>\$ 1,959,500</u></u>	<u><u>\$ 529,233</u></u>	<u><u>\$ (98,195)</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Automobile Parking System</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ (212,760)	\$ 1,545,350	\$ 321,184
199,176	828,836	766,403
(679)	261,485	15
(13)	(27,724)	(877)
-	(15,351)	(27,263)
(12,387)	(200,038)	695,381
4,766	(23,917)	(4,769)
<u>\$ (21,897)</u>	<u>\$ 2,368,641</u>	<u>\$ 1,750,074</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2004**

	<b>ACT 345 Retirement Pension Trust Fund</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,092,336	\$ 136,635
Investments, at fair value		
U.S. Governmental obligations	2,187,664	-
Mortgage backed securities	2,512,838	-
Common stock	13,029,982	-
Corporate bonds	2,388,374	-
Receivables		
Taxes	-	323,786
Accrued interest	85,788	-
<b>Total assets</b>	<b>22,296,982</b>	<b>\$ 460,421</b>
<b>Liabilities</b>		
Accrued and other liabilities	-	20,947
Due to other governments	-	439,474
<b>Total liabilities</b>	<b>-</b>	<b>\$ 460,421</b>
<b>Net Assets</b>		
Held in trust for pension benefits and other purposes	<b>\$ 22,296,982</b>	

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2004**

		ACT 345 Retirement System
<b>Additions</b>		
Contributions		
City contributions		\$ 396,681
Investment earnings		
Interest income		211,206
Dividend income		267,159
Net appreciation in fair value of investments		1,749,176
Less investment advisor fees		(50,970)
Net investment earnings		2,278,511
<b>Total additions</b>		<b>2,675,192</b>
<b>Deductions</b>		
Pension benefits paid		1,498,699
Administrative expense		53,726
<b>Total deductions</b>		<b>1,552,425</b>
Net increase in plan assets attributable to pension plan	955,321	
Net increase in plan assets attributable to health insurance	65,506	1,122,767
Net assets held in trust beginning of year		21,276,155
Net assets held in trust, end of year, attributable to pension plan	20,866,197	
Net assets held in trust, end of year, attributable to health insurance	1,430,785	\$ 22,398,922

The accompanying financial statements are not an integral part of these financial statements.

# CITY OF TRAVERSE CITY, MICHIGAN

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### Notes to the Financial Statements

June 30, 2004

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**CITY OF TRAVERSE CITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The *City of Traverse City* (the "City") was incorporated in 1895. The City operates under a commission-manager form of government and provides the following services as authorized by its charter: General Government/administrative services, Public Safety, Highways and Streets, Parks and Recreation, Planning and Zoning and Public Improvements.

**Discretely Presented Component Units**

The City has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of the "reporting entity".

The following component units are included in the City's reporting entity.

Downtown Development Authority (DDA, TIF2, TIF97)  
Traverse City Light and Power Department  
Traverse City Housing Commission

These discretely presented component units are presented in the statement of net assets and statement of activities. They are legally separate, and while the City is not responsible for the operations of the entities, the City is financially accountable for them. The nature and significance of the relationship between these entities and the City is such that exclusion of these entities would render the basic financial statements misleading or incomplete.

Complete financial statements of the individual component units can be obtained from the City Treasurer's Office at 400 Boardman Avenue, Traverse City, Michigan 49684, and from the entities themselves.

Other entities with which the City does not have such relationships are:

Bay Area Transportation Authority (BATA)  
Northwestern Regional Airport Commission  
Grand Traverse Commons Redevelopment Corporation  
Traverse Area District Library

The boards of these entities are independent of the City and the City has no significant operational or financial relationship with these entities. Accordingly, the financial statements for these entities have been excluded from the accompanying financial statements.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *Public Improvements Fund* accounts for the To account for transfers from the General Fund for receipts and disbursements for miscellaneous equipment transactions, property development and construction projects.

The *Brown Bridge Trust Fund* accounts for the use of money derived from oil, gas or mineral exploration at the Brown Bridge property which shall be endowed in a permanent trust. The income from the endowment is used to supplement City taxes as a credit against the General Fund levy.

The government reports the following major proprietary funds:

The *Wastewater Fund* accounts for the activities of the government's wastewater disposal and treatment system.

The *Water Fund* accounts for the activities of the government's water distribution and treatment system.

The *Marina Fund* accounts for the activities of the government's marina operations.

The *Automobile Parking System* accounts for the activities of the parking system.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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Additionally, the government reports the following fund types:

The *internal service funds* account for fleet and equipment management and employee fringe benefits provided to other departments or agencies of the government, on a cost reimbursement basis.

The *pension trust fund* accounts for the activities of the Public Safety employees Retirement System, which accumulates resources for pension and postretirement health benefits payments to qualified public safety employees.

The *agency funds* account for assets held for other governments in an agency capacity, specifically tax collections, payroll fringes, and senior center.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and wastewater function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Wastewater, Water, Marina, and Automobile parking System enterprise funds and the discretely presented component units Light and Power and Housing Commission enterprise funds and the government's internal service funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# **CITY OF TRAVERSE CITY**

## **NOTES TO FINANCIAL STATEMENTS**

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When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, liabilities and net assets or equity**

#### ***1. Deposits and investments***

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

#### ***2. Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### ***3. Restricted assets***

Certain proceeds of the Wastewater and Water revenue bonds and the discrete component unit Light and Power enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements and customer deposits payable.

#### ***4. Inventory***

Inventory held by the general, enterprise and internal service funds are valued at cost on the first-in, first-out basis, except for the Water fund, which is valued at average cost. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

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### 5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Public domain infrastructure	50
System infrastructure	50
Vehicles	7-25
Equipment	5-10

### 6. *Compensated absences*

City employees are granted vacation hours on their anniversary date of hire. The number of hours is dependent upon years of service. Unused vacation pay is accrued at year-end.

Until 1990, sick leave hours were credited to each employee as earned during a calendar year. Bargaining and non-bargaining employees are compensated for one-half of their unused accumulated sick leave hours up to a maximum of 480 hours (or 1,080 hours for Light and Power Department and Fire Department employees) upon retirement.

# **CITY OF TRAVERSE CITY**

## **NOTES TO FINANCIAL STATEMENTS**

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Since 1990, short-term leave pay has replaced sick leave pay for all employees. Each employee is entitled to 56 hours of short-term leave pay per year on December 1. Unused short-term leave accumulated at November 30 is paid out on December 1. The City accrues unused short-term leave at its fiscal year-end.

All vacation and sick leave is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

### **7. *Long-term obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **8. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# **CITY OF TRAVERSE CITY**

## **NOTES TO FINANCIAL STATEMENTS**

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### **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Not earlier than the third Monday in May and not later than the first Monday in June of each year the City Commission shall, by resolution, adopt the budget for the next fiscal year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing board is the function level, which is the level at which expenditures may not legally exceed appropriations. The City Manager may make transfers of appropriations between departments within any funds; however any supplemental appropriations that amend the total expenditures of any fund require City Commission resolution.

#### **B. Deficit fund equity**

##### **Component unit**

For the year ended June 30, 2004, the TIF2 Special Revenue Fund of the Downtown Development Authority component unit ended with a deficit unreserved fund balance of \$(370,556). Significant expenditures were incurred which were paid for in part via a long-term advance from the City's Industrial Park Fund. The deficit fund balance will be eliminated as future tax revenues are collected by April 2006. The City is expected to submit a deficit elimination plan with the State of Michigan in early 2005.

### **III. DETAILED NOTES ON ALL FUNDS**

#### **A. Deposits and investments**

Michigan Compiled Laws, Section 129.91 authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Commission has designated five banks for the deposit of City funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, interest bearing savings and checking accounts, repurchase agreements, bankers' acceptance of United States banks, federal agency instruments, money market funds with a net asset value of \$1.00 per share, commercial paper within the two highest classifications and negotiable and non-negotiable certificates of deposits, but not the remainder of State statutory authority as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

Cash and cash equivalents, investments and restricted assets (excluding the Housing Commission) are reported in the financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 8,348,293	\$ 2,919,826	\$ 2,228,971	\$ 13,497,090	\$ 5,150,349
Investments	14,842,045	467,968	20,118,858	35,428,871	10,815,289
Restricted assets	-	1,903,547	-	1,903,547	650,419
<b>Total</b>	<b><u>\$ 23,190,338</u></b>	<b><u>\$ 5,291,341</u></b>	<b><u>\$ 22,347,829</u></b>	<b><u>\$ 50,829,508</u></b>	<b><u>\$ 16,616,057</u></b>

Cash and cash equivalents reported above include \$5,900 of cash on hand and \$1,623,701 of cash held by the County that are not considered deposits or investments for footnote purposes.

The breakdown between deposits and investments is as follows:

Bank deposits (checking, savings accounts and certificates of deposit)	\$ 10,732,369
Investments	<u>55,083,595</u>
<b>Total</b>	<b><u>\$ 65,815,964</u></b>

The bank balance of the government's deposits including the component units is \$11,145,071. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance of \$10,645,071 was uninsured and uncollaterized.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

### Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with federally insured financial institutions within the State of Michigan, high grade commercial paper, repurchase obligations of the U.S. Government and U.S. agencies, banker's acceptances of U.S. banks and mutual funds comprised of the above authorized investments.

The City's unrestricted and restricted investments are categorized below to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the City's name.

	Category			Fair Value/ Carrying Amount
	1	2	3	
U.S. Government Securities	\$ -	\$21,887,000	\$ 2,187,664	\$ 24,074,664
Mortgaged backed securities	1,538	6,127	2,511,300	2,518,965
Corporate bonds	-	-	2,388,374	2,388,374
Common stock	80	-	13,029,982	13,030,062
Subtotal	\$ 1,618	\$21,893,127	\$20,117,320	42,012,065
Unclassified as to risk Investment pools				13,071,530
Total				\$ 55,083,595

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

Act 345 Retirement Amounts (Included in above Totals)				Fair Value/ Amount
Category				
1	2	3		
U.S. Government Securities	\$ -	\$ -	\$ 2,187,664	\$ 2,187,664
Mortgaged backed securities	1,538	-	2,511,300	2,512,838
Corporate bonds	-	-	2,388,374	2,388,374
Common stock	-	-	13,029,982	13,029,982
Subtotal	\$ 1,538	\$ -	\$20,117,320	20,118,858
Unclassified as to risk Investment pools				1,558,581
Total investments – ACT 345 Pension Trust Fund				\$21,677,439

The investment pools operate in accordance with appropriate state laws and regulations. The reported values of the pools are the same as the value of the pool shares.

The mutual funds and investment pool accounts are not categorized because they are not evidenced by securities that exist in physical or book entry form. The investments in the funds comply with the investment authority noted above. The City of Traverse City Act 345 retirement (police and fire) pension board has established investment policies that comply with Act 345 requirements.

### **Housing Commission (Not included in above Totals)**

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent accounts.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured, registered or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage. Category 2 includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name. Category 3 includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and the carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the June 30, 2004 balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository</u>	<u>Category</u>		<u>Total</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>3</u>		
Huntington Bank	\$ 200,000	\$ 70,610	\$ 270,610	\$ 220,001
Bank One	27,955	-	27,955	27,955
Northwestern Savings Bank	40,593	-	40,593	40,593
Members Credit Union	27,463	-	27,463	27,463
Total deposits	<u>\$ 296,011</u>	<u>\$ 70,610</u>	<u>\$ 366,621</u>	316,012
Unclassified as to risk				
Petty cash				<u>200</u>
Total Cash				<u>\$ 316,212</u>

### Reconciliation to Cash on Statement of Net Assets

Cash and cash equivalents	\$ 241,409
Investments - unrestricted	46,848
Restricted cash	<u>27,955</u>
Total Cash	<u>\$ 316,212</u>

**CITY OF TRAVERSE CITY**  
**NOTES TO FINANCIAL STATEMENTS**

Restricted cash is comprised of escrow balances for the Family Self Sufficiency Program in the Low Rent and Housing Choice Vouchers Program.

**B. Receivables**

Receivables in the governmental activities consist of 52 percent due from other governments, 31 percent special assessments receivable, 7 percent taxes receivable, and 10 percent other receivables. Receivables in the business-type activities consist of 50 percent due from other governments and 50 percent due from customers. Receivables in the component units consist of 42 percent due from other governments, 55 percent due from customers and 3 percent other receivables.

Accounts receivable in the Wastewater and Water enterprise Fund are net of allowances in the amounts of \$6,266 and \$2,125, respectively. Accounts receivable in the Light and Power and Housing Commission discrete component units are net of allowances in the amount of \$51,127 and \$19,965, respectively.

Special assessments receivable in the amount of approximately \$250,000 will not be collected within one year.

**C. Capital assets**

Capital assets activity for the year ended June 30, 2004 was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being				
Depreciated –				
Land	\$ 11,030,030	\$ 131,783	\$ -	\$ 11,161,813
Land improvements	430,735	26,796	-	457,531
Total capital assets not being				
Depreciated	<u>11,460,765</u>	<u>158,579</u>	<u>-</u>	<u>11,619,344</u>
<b>Capital assets being depreciated</b>				
Land improvements	\$ 1,142,118	\$ 101,322	\$ -	\$ 1,243,440
Infrastructure	35,914,358	773,345	-	36,687,703
Buildings	14,575,821	409,189	-	14,985,010
Equipment	<u>8,930,749</u>	<u>2,291,532</u>	<u>471,082</u>	<u>10,751,199</u>
Total capital assets being				
depreciated	<u>60,563,046</u>	<u>3,575,388</u>	<u>471,082</u>	<u>63,667,352</u>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for				
Land improvements	143,501	36,472	-	179,973
Infrastructure	27,181,259	1,373,265	-	28,554,524
Buildings	4,212,938	507,676	-	4,720,614
Equipment	<u>5,487,529</u>	<u>748,221</u>	<u>291,203</u>	<u>5,944,547</u>
Total accumulated depreciation	<u>37,025,227</u>	<u>2,665,634</u>	<u>291,203</u>	<u>39,399,658</u>
Total capital assets being depreciated, net	<u>23,537,819</u>	<u>909,754</u>	<u>179,879</u>	<u>24,267,694</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 34,998,584</u></b>	<b><u>\$ 1,068,333</u></b>	<b><u>\$ 179,879</u></b>	<b><u>\$ 35,887,038</u></b>
<b>Business-type activities</b>				
Capital assets not being Depreciated				
Land	\$ 965,044	\$ -	\$ -	\$ 965,044
Construction in progress	<u>11,886,193</u>	<u>5,961,987</u>	<u>580,347</u>	<u>17,267,833</u>
Total capital assets not being depreciated	<u>12,851,237</u>	<u>5,961,987</u>	<u>580,347</u>	<u>18,232,877</u>
Capital assets being depreciated				
Land improvements	7,477,613	898,689	-	8,376,302
Buildings and improvements	14,770,293	39,872	-	14,810,165
Other improvements	11,596,155	150,854	-	11,747,009
Machinery and equipment	<u>8,455,377</u>	<u>819,471</u>	<u>-</u>	<u>9,274,848</u>
Total capital assets being depreciated	<u>42,299,438</u>	<u>1,908,886</u>	<u>-</u>	<u>44,208,324</u>
Less accumulated depreciation for				
Buildings and improvements	\$ 5,845,814	\$ 324,208	\$ -	\$ 6,170,022
Other improvements	531,423	311,892	-	843,315
Machinery and equipment	<u>3,511,382</u>	<u>190,270</u>	<u>-</u>	<u>3,701,652</u>
Total accumulated depreciation	<u>9,888,619</u>	<u>826,370</u>	<u>-</u>	<u>10,714,989</u>
Total capital assets being depreciated, net	<u>32,410,819</u>	<u>1,082,516</u>	<u>-</u>	<u>33,493,335</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 45,262,056</u></b>	<b><u>\$ 7,044,503</u></b>	<b><u>\$ 580,347</u></b>	<b><u>\$ 51,726,212</u></b>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Light and Power</b>				
<b>Component unit –</b>				
Capital assets not being depreciated	\$ 843,278	\$ -	\$ 104	\$ 843,174
Construction in progress	<u>917,110</u>	<u>2,158,891</u>	<u>1,496,718</u>	<u>1,579,283</u>
 Total capital assets not being depreciated	 <u>1,760,388</u>	 <u>2,158,891</u>	 <u>1,496,822</u>	 <u>2,422,457</u>
 Capital assets being depreciated				
Buildings and improvements	6,213,049	54,480	-	6,267,529
Equipment and distribution system	<u>46,532,300</u>	<u>1,475,947</u>	<u>4,500</u>	<u>48,003,747</u>
 Total capital assets being depreciated	 <u>52,745,349</u>	 <u>1,530,427</u>	 <u>4,500</u>	 <u>54,271,276</u>
 Less accumulated depreciation for				
Buildings and improvements	2,121,914	144,037	-	2,265,951
Equipment and distribution system	<u>19,288,886</u>	<u>1,350,133</u>	<u>-</u>	<u>20,639,019</u>
 Total accumulated depreciation	 <u>21,410,800</u>	 <u>1,494,170</u>	 <u>-</u>	 <u>22,904,970</u>
 Total capital assets being depreciated, net	 <u>31,334,549</u>	 <u>36,257</u>	 <u>4,500</u>	 <u>31,366,306</u>
 <b>Light and Power</b>				
<b>Component Unit</b>				
Capital assets, net	<u>\$ 33,094,937</u>	<u>\$ 2,195,148</u>	<u>\$ 1,501,322</u>	<u>\$33,788,763</u>

**CITY OF TRAVERSE CITY**  
**NOTES TO FINANCIAL STATEMENTS**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Housing Commission</b>				
Capital assets not being depreciated				
Land	\$ 383,566	\$ -	\$ 85,901	\$ 297,665
Construction in progress	<u>4,278</u>	<u>-</u>	<u>4,278</u>	<u>-</u>
Total capital assets not being depreciated	<u>387,844</u>	<u>-</u>	<u>90,179</u>	<u>297,665</u>
Capital assets being depreciated				
Buildings	5,080,657	34,170	93,605	5,021,222
Machinery and equipment	382,109	22,548	4,564	400,093
Site improvements	<u>190,049</u>	<u>1,680</u>	<u>-</u>	<u>191,729</u>
Total capital assets being depreciated	<u>5,652,815</u>	<u>58,398</u>	<u>98,169</u>	<u>5,613,044</u>
Less accumulated depreciation	<u>3,290,975</u>	<u>207,406</u>	<u>18,398</u>	<u>3,479,983</u>
Total capital assets being depreciated, net	<u>2,361,840</u>	<u>(149,008)</u>	<u>79,771</u>	<u>2,133,061</u>
<b>Housing Commission Component Unit</b>				
Capital assets, net	<u>\$ 2,742,684</u>	<u>\$ (149,008)</u>	<u>\$ 169,950</u>	<u>\$ 2,430,726</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities</b>	
General government	\$ 59,284
Public safety	75,070
Public works, including depreciation of general infrastructure assets	1,374,638
Parks and recreation	390,239
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>766,403</u>
<b>Total depreciation expense – governmental activities</b>	<b><u>\$2,665,634</u></b>
<b>Business-type activities</b>	
Wastewater	\$ 209,599
Water	286,989
Marina	130,606
Auto parking	<u>199,176</u>
<b>Total depreciation expense – business-type activities</b>	<b><u>\$ 826,370</u></b>

**CITY OF TRAVERSE CITY**  
**NOTES TO FINANCIAL STATEMENTS**

<b>Component unit activities</b>	
Light and power	\$1,494,170
Housing Commission	<u>207,406</u>
<b>Total depreciation expense - component unit activities</b>	<b><u>\$1,701,576</u></b>

**D. Accounts payable and accrued expenses**

Accounts payable and accrued expenses in the governmental activities consist of 65 percent vendor payables, 20 percent accrued salaries, 8 percent accrued interest, and 7 percent customer deposits. Business-type activities accounts payable and accrued expenses consist of 45 percent vendor payables, 16 percent accrued salaries, 37 percent accrued interest, 1 percent customer deposits and 1 percent other liabilities. Component unit accounts payable and accrued expenses consist of 79 percent vendor payables, 6 percent accrued payroll, 6 percent customer deposits, 1 percent accrued interest and 8 percent other liabilities.

**E. Interfund receivables, payables and transfers**

The composition of interfund balances is as follows:

	<b>Due From Other Funds</b>			<b>Total</b>
	<b>General Fund</b>	<b>Major Streets Fund</b>	<b>Non-Major Governmental Funds</b>	
<b><u>Due to other funds</u></b>				
General Fund	\$ -	\$ 70,000	\$ -	\$ 70,000
Local Streets Fund	23,925	-	-	23,925
Brown Bridge Fund	59,570	-	-	59,570
Wastewater Fund	91,348	-	-	91,348
Water Fund	19,968	-	-	19,968
Autoparking Fund	33,865	-	-	33,865
Cultural Fund	-	-	1,772	1,772
Non-Major Governmental Funds	26,643	-	-	26,643
<b>Total</b>	<b><u>\$ 255,319</u></b>	<b><u>\$ 70,000</u></b>	<b><u>\$ 1,772</u></b>	<b><u>\$ 327,091</u></b>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

Interfund receivables and payables are established to: (1) cover cash deficits, (2) to record a receivable for the year end transfer of interest revenue to the general fund, and (3) to record administration fees owed to the general fund.

	<u>Due from component unit</u>		
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
<b><u>Due to primary government</u></b>			
Downtown Development Authority	\$ -	\$ 450,000	\$ 50,000
Light and Power	196,695	-	196,695
Housing Commission	21,500	-	21,500
<b>Total</b>	<b>\$ 218,195</b>	<b>\$ 450,000</b>	<b>\$ 668,195</b>

	<u>Advances from primary government</u>		
	<u>Marina Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
<b><u>Advances to component unit</u></b>			
Light and Power	\$ 2,500,000	\$ 118,830	\$ 2,618,830

Interfund receivables and payables are established to: (1) finance projects and (2) to record administration fees owed to the general fund.

<b><u>Transfer In</u></b>	<u>Transfer Out</u>			
	<u>General Fund</u>	<u>Brown Bridge Trust Fund</u>	<u>Non-Major Governmentals Fund</u>	<u>Total</u>
General Fund	\$ -	\$ 230,981	\$ 36,615	\$ 267,596
Major Streets Fund	70,000	-	-	70,000
Local Streets Fund	635,972	-	-	635,972
Opera House Renovation Fun	-	-	451,691	451,691
Non-Major Governmental Fu	454,710	-	125,324	580,034
<b>Total</b>	<b>\$ 1,160,682</b>	<b>\$ 230,981</b>	<b>\$ 613,630</b>	<b>\$ 2,005,293</b>

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

Interfund transfers are for: (1) to transfer interest revenue to the general fund and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### F. Long-term debt

The following is a summary of bond, note and contract debt transactions of the City for the year ended June 30, 2004:

	Primary Government			Component Units	Total Reporting Entity
	Governmental Activities General Obligation Bonds	Business- Type Activities Lease Payable	Business- Type Revenue Bonds		
Long-Term Debt at July 1, 2002	\$ 11,070,000	\$ 20,711,080	\$1,975,000	\$ 885,000	\$ 34,641,080
Additions	-	-	-	-	-
Reductions	<u>(110,000)</u>	<u>(756,197)</u>	<u>(150,000)</u>	<u>(280,000)</u>	<u>(1,296,197)</u>
Long-Term Debt at June 30, 2004	<u>\$ 10,960,000</u>	<u>\$ 19,954,883</u>	<u>\$1,825,000</u>	<u>\$ 605,000</u>	<u>\$ 33,344,883</u>
Due Within One Year	<u>\$ 10,000</u>	<u>\$ 900,785</u>	<u>\$ 150,000</u>	<u>\$ 295,000</u>	<u>\$ 1,355,785</u>

Compensated absences reported in the primary governmental type activities of \$623,144 increased by \$25,187 for the year ended June 30, 2004; current portion is \$28,407. Compensated absences reported in the business-type activities of \$77,791 decreased by \$9,142 for the year ended June 30, 2004; current portion is \$6,103. Compensated absences reported in the component unit activities of \$373,342 decreased by \$4,628 for the year ended June 30, 2004; current portion is \$17,702.

For the governmental activities, compensated absences are generally liquidated by the general fund.

# CITY OF TRAVERSE CITY

## NOTES TO FINANCIAL STATEMENTS

Long-term debt at June 30, 2004 is comprised of the following individual issues:

	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Outstanding Balance</u>
<b>Primary Government</b>			
General Long-Term Debt			
General obligation Downtown Development Series 2002A – Parking Deck	2028	4.65-5.15	\$ 9,520,000
General obligation Downtown Development Series 2002 B – Parking Deck	2017	4.50-6.50	1,440,000
Enterprise Funds			
1992 Water Revenue Bonds	2013	5.00-8.00	1,825,000
1995 Wastewater Treatment Capital Lease Payable	2015	4.15-5.70	1,826,015
1998 Wastewater Disposal Capital Lease Payable	2013	4.00-4.50	661,448
2002 Wastewater Treatment Capital Lease Payable	2022	2.75-5.00	<u>17,467,422</u>
<b>Total Primary Government</b>			<u>32,739,885</u>
<b>Component Units</b>			
Light and Power Department			
1993 Electric Utility Revenue Refunding Bonds	2005		<u>605,000</u>
<b>Total Reporting Entity</b>			<b><u>\$ 33,344,885</u></b>

The City has created a statutory first lien on the net revenues of the Light and Power Department Component Unit and Water Fund to secure the payment of principal and interest on the revenue bonds. Certain bond ordinances require that bond and interest redemption funds be maintained with a minimum balance amounting to the highest annual principal and interest payments due for each issue plus amounts necessary to fund current principal and interest payments.

The Wastewater Disposal System Bond Issues, which include the 1995 Waste Water Treatment, 1998 Wastewater Disposal, and 2002 Wastewater Treatment, were issued through Grand Traverse County (the "County"). The City records these bonds as a capital lease payable in accordance with the Michigan Committee on Governmental Accounting and Auditing Statement 10, as amended.

In August 1993, the City issued \$2,420,000 of Electric Utility System Revenue Refunding Bonds, Series 1993. The proceeds of the Series 1993 bonds were used to call \$2,400,000 of the Series 1986 bonds payable in years 2000 through 2006, and to pay bond issuance costs.

## **CITY OF TRAVERSE CITY**

### **NOTES TO FINANCIAL STATEMENTS**

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As a result of the bond refunding, a deferred charge was recorded, which primarily is the excess of assets, consisting of net bond proceeds of the Series 1993 refunding bonds and additional cash transferred by the City into the escrow fund, over the amount of the Series 1986 bonds which were defeased. The deferred charge, with a balance of \$68,070 at June 30, 2004, is being amortized over the life of the Series 1993 bonds.

In 1986, the City defeased (refinanced) Series 1984 revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. At June 30, 2004, \$1,975,000 of the Series 1984 bonds are considered defeased, and the amount of defeased debt not yet paid is \$900,000.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

The annual requirements to pay principal and interest on long-term debt obligations are as follows:

Fiscal Year	Governmental Activities General Obligation Bonds		Business-Type Capital Lease Payable		Business-Type Revenue Bond		Component Unit Revenue Bond	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 10,000	\$ 566,093	\$ 900,785	\$ 814,901	\$ 150,000	\$ 109,350	\$ 295,000	\$ 22,654
2006	10,000	565,630	913,316	790,452	175,000	100,500	310,000	7,750
2007	170,000	565,148	928,456	765,482	175,000	90,000	-	-
2008	170,000	556,268	959,212	737,807	200,000	79,500	-	-
2009	170,000	547,128	976,642	706,732	200,000	67,500	-	-
2010-14	1,100,000	2,583,279	5,625,678	2,951,250	925,000	141,000	-	-
2015-19	2,225,000	2,179,259	5,702,388	1,762,639	-	-	-	-
2020-24	3,705,000	1,469,265	3,948,408	396,043	-	-	-	-
2025-28	3,400,000	436,475	-	-	-	-	-	-
	<u>\$ 10,960,000</u>	<u>\$ 9,468,545</u>	<u>\$ 19,954,885</u>	<u>\$ 8,925,306</u>	<u>\$ 1,825,000</u>	<u>\$ 587,850</u>	<u>\$ 605,000</u>	<u>\$ 30,404</u>

# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **G. Segment information - enterprise funds**

The City issued revenue bonds to finance certain improvements to its water supply system and the discretely presented component unit, Light and Power, issued revenue bonds to finance certain improvements to its electrical supply system. Because the Water Fund, an individual fund that accounts entirely for the government's water supply system, and the Light and Power fund, a component unit that accounts entirely for the government's electrical supply system are segments and are reported as a major funds in the fund financial statements and on the statement of net assets and statement of activities, segment disclosures herein are not required.

### **H. Commitments**

#### **Construction**

During 2004, the City entered into the following contracts:

Michigan Department of Transportation for street improvements in the amount of \$373,150. Project costs through June 30, 2004 were \$222,397. The total remaining estimated cost is \$150,753. The project is expected to be completed during fiscal 2005.

Comstock Construction Company for street improvements in the amount of \$406,816. No project costs were expended through June 30, 2004. The project is expected to be completed during fiscal 2005.

JP's Professional Services for a term of 3 years to provide ground maintenance in the amount of \$419,671. Project costs through June 30, 2004 were \$61,545. The total remaining estimated cost is \$358,126. This contract expires during fiscal 2007.

Hydaker-Wheatlake Company for the installation of a GT2 transmission line in the amount of \$549,161. No project costs were expended through June 30, 2004. The project is expected to be completed during fiscal 2005.

#### **Vehicles**

The City leases four vehicles under operating agreements which require total monthly rental payments of \$1,696. Three of the leases expire in June 2006 and the remaining lease expired in September 2004. Total rent for the year ended June 30, 2004 amounted to \$20,352. Future minimum lease payments required under the operating leases are \$15,861 and \$14,364 for the years ended June 30, 2004 and 2005, respectively.

# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **Property**

During fiscal 2004, The City entered into an agreement to lease various parcels of property that requires annual rental payments of \$1. Under the lease agreement, the City must maintain the property, carry adequate insurance and pay all assessments and property taxes. The fair value of the lease is not considered by management to be significant in any one year and, therefore, is not recorded as contribution revenue and lease expense. This lease expires July 2023.

## **IV. OTHER INFORMATION**

### **A. Risk management**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended June 30, 2004, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

### **B. Joint agreements**

Beginning June 1, 1978, the City entered into an agreement with the County of Grand Traverse for the joint ownership and operation of the Governmental Center. Under the terms of the agreement, the City owns 23.84% of the property and the County owns the remaining 76.16%. The City's share of the original building cost was \$935,000.

Under the terms of a separate agreement, the City reimburses the County of Grand Traverse for their pro rata share of operation and maintenance costs. The City's share of these costs for the year ended June 30, 2004 amounted to \$70,625 and is included in General Fund expenditures.

### **C. Property taxes**

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Grand Traverse County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value.

# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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Real and personal property in the City for the 2003 levy were assessed and equalized at \$563,274,642, representing 50 percent of estimated current market value. The government's general operating tax rate for fiscal year 2003-04 was 13.23 mills.

Property taxes for the DDA are derived from real and personal property in the Downtown Development Authority and for the 2003 levy were assessed and equalized at \$36,317,869, representing 50 percent of estimated current market value. The Downtown Development general operating tax rate for fiscal year 2003-04 was 1.817 mills. Property taxes are also derived from a tax increment financing agreement between the DDA and other taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Traverse City, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

### **D. Defined benefit pension plans**

The City has two retirement plans, one covering police and fire department personnel and the other covering all other employees of the City, and the Light and Power Component Unit employees.

#### **Police and Fire Department Employees' Retirement Fund (Act 345)**

##### **Basis of Accounting**

The Police and Fire Retirement System Financial Statements are included as a pension trust fund of the City of Traverse City and are prepared using the accrual basis of accounting. Employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the plan. Administrative costs are financed through investment earnings. The Plan does not issue a stand-alone financial report.

##### **Method Used To Value Investments**

Investments are reported at fair value. Short-term investments are valued at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

##### **Description of the Plan**

The City contributes to a single employer defined benefit retirement plan, the Police and Fire Retirement System, administered by the City and covering certain police and fire department personnel established under Michigan Act No. 345 of the Public Acts of 1937, as amended. The Plan provides retirement, disability and death benefits to plan

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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members and their beneficiaries. At June 30, 2003, the most recent actuarial valuation date, membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	52
Active plan members	<u>55</u>
Total	<u>107</u>

### Contributions

The City's obligation to contribute, benefit provisions and all other requirements of the system are established and amended by Michigan statute (P.A. 345). Employees of the Police and Fire Retirement System are not required to contribute to the system. All full service police and fire department employees are eligible to participate in the Police and Fire Retirement System. For the years ended June 30, 2002, 2003 and 2004, the City contributed 100% of the annual pension costs, which was also the required contribution, in the amounts of \$276,417, \$342,511, and \$396,681 respectively. There were no net pension obligations at the end of these years. At year end June 30, 2003, the funded ratio (actuarial value of assets as a percent of actuarial accrued liability) was 107.8%. The amount contributed for the plan year was \$396,681, which is equal to the total contribution to the plan noted above.

### Actuarial Methods and Assumptions

Valuation date	June 30, 2003
Actuarial cost method	Entry-age
Amortization method	Level percent of payroll
Remaining amortization period	20 years open
Asset valuation method	4 years smoothed market
Actuarial Assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5% - 8%
*Includes inflation at	5%
Cost of living adjustments:	2.5% of original pension for twenty years, payable to the police captains unit, pre-July 1, 1990 retirees, Police Sergeants (effective 8-1-98) and Police Patrol (effective 1-1-99) and Firefighters Unit (effective 7-1-00)

Additional required supplementary information regarding the police and fire pension plan is reported in the supplemental material portion of the financial statements.

# **CITY OF TRAVERSE CITY, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **Municipal Employees Retirement System (MERS)**

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917 or by calling (800) 767-6377.

### **Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate ranges from 14.39% to 17.27% of annual covered payroll depending on the class of employee. Employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS.

### **Annual Pension Cost**

For the year ended June 30, 2004 the City's annual pension cost of \$946,826 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the last actuarial valuation, was 30 years.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

### Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 660,626	100%	\$ -
6/30/03	788,911	100%	-
6/30/04	946,826	100%	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$ 30,940,918	\$ 34,985,033	\$ 4,044,115	88%	\$ 5,989,759	68%
12/31/02	31,188,955	37,247,805	6,058,850	84%	6,388,977	95%
12/31/03	32,827,731	40,174,115	7,346,384	82%	6,905,057	106%

### E. Entitlement commitment

The Traverse City Light and Power Department, along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency ("MPPA"). The agency was formed to acquire interests in certain electric generating plants and related transmission lines. MPPA has acquired a 4.8% undivided interest in the Consumers Power Company Campbell 3 plant, and an 18.61% undivided interest in the Detroit Edison Company Belle River project.

In 1983, Traverse City Light and Power Department entered into a 35-year power supply and project support contract with MPPA. Under the agreement, Traverse City Light and Power Department will purchase 26.35% of the energy generated by MPPA's share of the Campbell 3 plant, 4.53% of the energy generated by MPPA's share of the Belle River plant, and 75.9% of the energy generated by the Combustion Turbine plant.

In 2002, Traverse City Light and Power Department entered into an agreement with MPPA to purchase 75.9% of the energy generated by MPPA's Kalkaska Combustion Turbine Plant.

For the year ended June 30, 2004, Traverse City Light and Power Department recognized expenses totaling \$9,820,828 to purchase power under the terms of these contracts. The price of the power was calculated on a basis, as specified in the contract, to enable MPPA to recover its production, transmission and debt service costs.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

Under the terms of the contract, Traverse City Light and Power Department must make annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3, Belle River, and Combustion Turbine projects (based on the percentage of power purchased).

The estimated annual debt payments (assuming no early calls or refinancing of existing revenue bonds) are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,913,364	\$ 2,253,101	\$ 4,166,465
2006	2,002,074	2,161,228	4,163,302
2007	2,100,144	2,064,643	4,164,787
2008	2,203,788	1,963,899	4,167,687
2009	2,313,742	1,851,640	4,165,382
2010-2014	11,582,690	7,560,017	19,142,707
2015-2019	9,924,039	4,746,552	14,670,591
2020-2024	7,145,985	2,542,470	9,688,455
2025-2027	<u>5,252,280</u>	<u>560,853</u>	<u>5,813,133</u>
	<u>\$ 44,438,106</u>	<u>\$25,704,403</u>	<u>\$ 70,142,509</u>

In prior years, the MPPA over-charged its member utilities on their power sales contract agreements. MPPA and the member utilities have established a trust fund ("The Municipal Competitive Trust"). Specific policies have been established by each member regarding the use of these funds. The Department's share of this trust fund was approximately \$2,258,219.

### F. Single Audit

It is required by the Michigan Department of Transportation that the City report total federal awards for road construction pertaining to their City.

During the year ended June 30, 2004 the City of Traverse City expended federal awards in the amount of \$870,648. The entire amount of these expenditures represent Department of Transportation Federal Highway grant proceeds expended on public road improvement projects under Federal Urban and Rural Programs, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of these projects being performed at the State level, these expenditures will be included in the single audit of the State. Other federal award expenditures administered by the City, not including the Housing Commission, a component unit of the City, which has their own single audit amounted to \$117,449, under the threshold of requiring a single audit.

# CITY OF TRAVERSE CITY, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS

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### G. Prior Period Adjustments

Beginning fund balance in the Marina Enterprise Fund was adjusted by \$447,498, in order to correct a prior year accounting error.

Beginning fund balance in the Housing Commission was adjusted by \$157,466 as a result of the following:

Refund of overpayment for prior year federal form 941 taxes	\$ 630
Void 3 prior year checks	529
Reclassify prior year checks from operations to capital fund	315
To remove capital assets for the Madeleine House	<u>(158,940)</u>
Total prior period adjustment	<u>\$ (157,466)</u>

### H. Subsequent Events

#### Construction Commitments

Subsequent to June 30, 2004, the City entered into the following contracts:

Elmer's Crane and Dozer for the installation of a transmission line in the amount of \$418,164.

Reith Riley for street improvements in the amount of \$378,884.

Hydaker-Wheatlake Company for the installation of a substation in the amount of \$708,165.

#### Building and Equipment Sale

Subsequent to June 30, 2004 the City executed an agreement to sell portions of the Bayside Power Plant building and selected equipment. Total proceeds received from the sale amounted to \$400,000.

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**CITY OF TRAVERSE CITY  
ACT 345 Pension Trust Fund  
Required Supplementary Information  
Schedule of Funding Progress**

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll ((b - a) / c)
6/30/93	\$ 10,095,912	\$ 11,776,802	\$ 1,680,890	85.73%	\$ 2,000,349	84.03%
6/30/94	11,352,739	12,750,483	1,397,744	89.04%	2,016,886	69.30%
6/30/95	12,268,527	13,327,350	1,058,823	92.06%	2,131,177	49.68%
6/30/96	13,633,711	13,719,091	85,380	99.38%	2,131,057	4.01%
6/30/97	15,520,629	15,077,046	(443,583)	102.94%	2,212,378	0.00%
6/30/98	17,885,188	15,171,393	(2,713,795)	117.9%	2,259,312	0.00%
6/30/99	20,405,330	17,147,459	(3,257,871)	119.0%	2,337,289	0.00%
6/30/2000	22,497,159	18,756,152	(3,741,007)	119.9%	2,470,379	0.00%
6/30/2001	23,695,203	19,552,221	(4,142,982)	121.2%	2,467,235	0.00%
6/30/2002	23,592,627	20,540,751	(3,051,876)	114.9%	2,393,258	0.00%
6/30/2003	22,842,110	21,175,431	(1,666,679)	107.8%	2,402,524	0.00%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year ended/valuation June 30	Annual Required Contribution	Percentage Contributed
1994 / 1993	\$ 483,851	100
1995 / 1994	489,957	100
1996 / 1995	469,685	100
1997 / 1996	401,581	100
1998 / 1997	366,149	100
1999 / 1998	193,624	100
2000 / 1999	227,662	100
2001 / 2000	294,964	100
2002 / 2001	276,417	100
2003 / 2002	342,511	100
2004 / 2003	396,681	100

The above contributions are for pension benefits only and do not include amounts contributed for health care coverage.

The information in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows.

Valuation date	June 30, 2003
Actuarial cost method	Entry - age
Amortization method	Level percent of payroll
Remaining amortization period	20 years
Asset valuation method	4 years smoothed market
Actuarial assumptions:	
Investment rate of return:	7.50%
Projected salary increases:	5%-8% Includes inflation at 5%
Cost of living adjustments:	

2.5% of original pension for twenty years, payable to the Police Captains unit and pre July 1, 1990 retirees, Police Sergeants (effective 8-1-98) and Police Patrol (effective 1-1-99) and Firefighters Unit (effective 7-1-00).

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2004**

	Special Revenue Funds	Capital Projects Funds	Permanent Cemetery Perpetual Care	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 1,741,208	\$ 1,989,865	\$ 27,291	\$ 3,758,364
Investments	908,339	604,111	513,138	2,025,588
Accounts receivables	2,000	-	-	2,000
Taxes receivable	-	7,039	-	7,039
Special assessments receivable	-	431,104	-	431,104
Due from other governments	45,991	-	-	45,991
Due from other funds	1,772	-	-	1,772
Due from component unit	450,000	-	-	450,000
Prepaid items	257	-	-	257
<b>Total assets</b>	<b>\$ 3,149,567</b>	<b>\$ 3,032,119</b>	<b>\$ 540,429</b>	<b>\$ 6,722,115</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 49,949	\$ 83,637	\$ -	\$ 133,586
Accrued and other liabilities	41,766	-	-	41,766
Due to other funds	17,499	-	10,916	28,415
Advance from component unit	-	118,830	-	118,830
Deferred revenue	-	312,274	-	312,274
<b>Total liabilities</b>	<b>109,214</b>	<b>514,741</b>	<b>10,916</b>	<b>634,871</b>
<b>Fund balances</b>				
Reserved for				
Prepaid items	257	-	-	257
Endowments	-	-	529,513	529,513
Unreserved				
Undesignated	3,040,096	2,517,378	-	5,557,474
<b>Total fund balances</b>	<b>3,040,353</b>	<b>2,517,378</b>	<b>529,513</b>	<b>6,087,244</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,149,567</b>	<b>\$ 3,032,119</b>	<b>\$ 540,429</b>	<b>\$ 6,722,115</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2004**

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Cemetery Perpetual Care	Total Nonmajor Governmental Funds
<b>Revenues</b>					
Property taxes and special assessments	\$ -	\$ -	\$ 162,834	\$ -	\$ 162,834
Federal sources	80,206	-	-	-	80,206
State sources	8,314	-	-	-	8,314
Local sources	65,220	681,670	-	-	746,890
Charges for services	166,335	-	-	18,034	184,369
Contributions	118,447	-	-	-	118,447
Interest income	51,895	-	61,764	(449)	113,210
Other revenue	38,380	-	-	-	38,380
<b>Total revenues</b>	<b>528,797</b>	<b>681,670</b>	<b>224,598</b>	<b>17,585</b>	<b>1,452,650</b>
<b>Expenditures</b>					
Current expenditures					
General government	265,567	-	-	-	265,567
Public safety	92,537	-	-	-	92,537
Public services	287,743	-	-	-	287,743
Debt service					
Principal	-	110,000	-	-	110,000
Interest and fiscal charges	-	571,670	-	-	571,670
Capital outlay	36,837	-	1,588,117	-	1,624,954
<b>Total expenditures</b>	<b>682,684</b>	<b>681,670</b>	<b>1,588,117</b>	<b>-</b>	<b>2,952,471</b>
Excess (deficiency) of revenues over expenditures	(153,887)	-	(1,363,519)	17,585	(1,499,821)
<b>Other financing sources (uses)</b>					
Transfers in	144,582	-	461,341	-	605,923
Transfers out	(602,714)	-	-	(10,916)	(613,630)
<b>Total other financing sources (uses)</b>	<b>(458,132)</b>	<b>-</b>	<b>461,341</b>	<b>(10,916)</b>	<b>(7,707)</b>
<b>Net change in fund balance</b>	<b>(612,019)</b>	<b>-</b>	<b>(902,178)</b>	<b>6,669</b>	<b>(1,507,528)</b>
Fund balances, beginning of year	3,652,372	-	3,419,556	522,844	7,594,772
<b>Fund balances, end of year</b>	<b>\$ 3,040,353</b>	<b>\$ -</b>	<b>\$ 2,517,378</b>	<b>\$ 529,513</b>	<b>\$ 6,087,244</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Fund**  
**Schedule of Revenues**  
**Budget (GAAP Basis) and Actual**  
**For the Year Ended June 30, 2004**

	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Taxes</b>			
Real estate and personal property	\$ 7,005,000	\$ 6,870,365	\$ (134,635)
Collection fees	11,500	11,592	92
Penalties and interest on taxes	85,000	83,033	(1,967)
<b>Total taxes</b>	<b>7,101,500</b>	<b>6,964,990</b>	<b>(136,510)</b>
<b>Licenses and permits</b>			
Business	167,000	181,724	14,724
Nonbusiness	7,050	16,110	9,060
<b>Total licenses and permits</b>	<b>174,050</b>	<b>197,834</b>	<b>23,784</b>
<b>Federal sources</b>	<b>35,000</b>	<b>37,243</b>	<b>2,243</b>
<b>State sources</b>			
State -shared revenues			
Sales and use tax	1,513,000	1,400,207	(112,793)
Liquor licenses	20,500	22,224	1,724
<b>Total state sources</b>	<b>1,533,500</b>	<b>1,422,431</b>	<b>(111,069)</b>
<b>Local Sources</b>			
City fee	1,450,000	1,532,390	82,390
<b>Charges for services</b>			
General fees and services	31,300	56,549	25,249
Sale of assets	2,000	3,073	1,073
Use and admission fees	316,150	307,007	(9,143)
Fine and forfeitures - ordinance and cost	80,000	84,890	4,890
<b>Total charges for services</b>	<b>429,450</b>	<b>451,519</b>	<b>22,069</b>
<b>Fines and forfeits</b>			
Parking violations	87,000	78,822	(8,178)
<b>Reimbursements</b>	<b>286,000</b>	<b>294,302</b>	<b>8,302</b>
<b>Interest income</b>	<b>120,000</b>	<b>156,259</b>	<b>36,259</b>
<b>Other revenue</b>			
Rents and royalties	3,000	800	(2,200)
Contributions	201,400	195,239	(6,161)
Other	12,300	10,160	(2,140)
<b>Total other revenue</b>	<b>216,700</b>	<b>206,199</b>	<b>(10,501)</b>
<b>Total revenues</b>	<b>\$ 11,433,200</b>	<b>\$ 11,341,989</b>	<b>\$ (91,211)</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Fund**  
**Schedule of Expenditures**  
**Budget (GAAP Basis) and Actual**  
**For the Year Ended June 30, 2004**

	Final Budget	Actual	Actual Over (Under) Final Budget
<b>General government</b>			
City Commission			
Personnel	\$ 33,550	\$ 31,466	\$ (2,084)
Commodities	1,000	1,203	203
Contractual services	127,500	130,826	3,326
Other charges	14,200	14,271	71
Total city commission	176,250	177,766	1,516
City Manager's office			
Personnel	405,900	412,778	6,878
Commodities	14,250	12,463	(1,787)
Contractual services	57,000	37,179	(19,821)
Other charges	19,900	15,257	(4,643)
Total city manager's office	497,050	477,677	(19,373)
City Clerk's office			
Personnel	218,600	216,925	(1,675)
Commodities	19,000	11,891	(7,109)
Contractual services	47,250	41,710	(5,540)
Other charges	36,400	27,126	(9,274)
Total city clerk's office	321,250	297,652	(23,598)
Assessor's office			
Personnel	227,650	227,113	(537)
Commodities	11,750	10,577	(1,173)
Contractual services	27,050	16,545	(10,505)
Other charges	1,900	2,358	458
Total assessor's office	268,350	256,593	(11,757)
Treasurer's office			
Personnel	250,650	241,367	(9,283)
Commodities	13,900	11,881	(2,019)
Contractual services	40,600	42,022	1,422
Other charges	13,600	5,334	(8,266)
Total treasurer's office	318,750	300,604	(18,146)
Building and grounds			
Other charges	113,000	105,601	(7,399)

Continued.....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Fund**  
**Schedule of Expenditures**  
**Budget (GAAP Basis) and Actual**  
**For the Year Ended June 30, 2004**

	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Planning/Zoning</b>			
Personnel	\$ 230,450	\$ 231,314	\$ 864
Commodities	10,000	6,148	(3,852)
Contractual services	30,700	33,332	2,632
Other charges	6,150	7,244	1,094
<b>Total Planning/Zoning</b>	<b>277,300</b>	<b>278,038</b>	<b>738</b>
<b>Cemetery</b>			
Personnel	126,950	125,800	(1,150)
Commodities	13,100	10,249	(2,851)
Contractual services	164,000	149,778	(14,222)
Other charges	51,950	40,346	(11,604)
<b>Total Cemetery</b>	<b>356,000</b>	<b>326,173</b>	<b>(29,827)</b>
<b>Appropriations</b>	<b>165,500</b>	<b>161,953</b>	<b>(3,547)</b>
<b>Capital outlay</b>	<b>69,650</b>	<b>41,214</b>	<b>(28,436)</b>
<b>Total general government</b>	<b>2,563,100</b>	<b>2,423,271</b>	<b>(139,829)</b>
<b>Public Safety</b>			
<b>Police</b>			
Personnel	2,607,200	2,505,270	(101,930)
Commodities	88,150	80,202	(7,948)
Contractual services	272,450	313,191	40,741
Other charges	273,550	315,301	41,751
<b>Total police</b>	<b>3,241,350</b>	<b>3,213,964</b>	<b>(27,386)</b>
<b>Fire</b>			
Personnel	2,002,950	1,914,065	(88,885)
Commodities	88,400	89,970	1,570
Contractual services	108,200	100,637	(7,563)
Other charges	273,650	311,435	37,785
<b>Total fire</b>	<b>2,473,200</b>	<b>2,416,107</b>	<b>(57,093)</b>
<b>Total Public Safety</b>	<b>5,714,550</b>	<b>5,630,071</b>	<b>(84,479)</b>

Continued .....

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Fund**  
**Schedule of Expenditures**  
**Budget (GAAP Basis) and Actual**  
**For the Year Ended June 30, 2004**

	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Public Works</b>			
Streets, alleys and sidewalks			
Personnel	\$ 258,100	\$ 217,449	\$ (40,651)
Commodities	43,600	36,740	(6,860)
Contractual services	55,000	67,714	12,714
Other charges	(103,100)	(195,500)	(92,400)
Total streets, alleys and sidewalks	253,600	126,403	(127,197)
Public works - director			
Personnel	58,900	58,844	(56)
Commodities	1,200	936	(264)
Contractual services	2,950	1,956	(994)
Other charges	5,850	5,596	(254)
Total public works - director	68,900	67,332	(1,568)
Street lighting - utilities	181,000	179,954	(1,046)
Engineering			
Personnel	509,950	478,604	(31,346)
Commodities	25,050	12,251	(12,799)
Contractual services	54,700	31,591	(23,109)
Other charges	13,400	10,938	(2,462)
Total engineering	603,100	533,384	(69,716)
<b>Total Public Works</b>	<b>1,106,600</b>	<b>907,073</b>	<b>(199,527)</b>
<b>Recreation and culture</b>			
Parks			
Personnel	814,000	816,475	2,475
Commodities	59,000	40,720	(18,280)
Contractual services	140,000	157,647	17,647
Other charges	385,400	390,051	4,651
Total parks	1,398,400	1,404,893	6,493
Zoo			
Personnel	233,550	231,733	(1,817)
Commodities	36,600	26,753	(9,847)
Contractual services	106,900	86,980	(19,920)
Other charges	118,800	97,711	(21,089)
Total zoo	495,850	443,177	(52,673)
<b>Total recreation and culture</b>	<b>1,894,250</b>	<b>1,848,070</b>	<b>(46,180)</b>
<b>Total expenditures</b>	<b>\$ 11,278,500</b>	<b>\$ 10,808,485</b>	<b>\$ (470,015)</b>

Concluded

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General Fund**  
**Schedule of Transfers**  
**Budget (GAAP Basis) and Actual**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Transfers in</b>			
Brown Bridge Trust	\$ 200,000	\$ 230,981	\$ 30,981
Other funds	32,000	36,615	4,615
<b>Total transfers in</b>	<u>232,000</u>	<u>267,596</u>	<u>35,596</u>
<b>Transfers out</b>			
Motor Vehicle Highway	814,000	705,972	\$ (108,028)
Opera House	20,000	17,810	(2,190)
Public Improvement	302,250	302,250	-
Con Foster museum	50,000	50,000	-
Senior Center	75,000	75,000	-
Capital Improvement Assessments	65,350	9,650	(55,700)
<b>Total transfers out</b>	<u>\$ 1,326,600</u>	<u>\$ 1,160,682</u>	<u>\$ (165,918)</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Public Improvement Capital Projects Fund**  
**For the Year Ended June 30, 2004**

	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>			
Federal sources	\$ -	\$ 870,648	\$ 870,648
Interest income	30,000	29,664	(336)
Contributions	170,000	167,750	(2,250)
Other revenue	20,000	25,825	5,825
<b>Total revenues</b>	<b>220,000</b>	<b>1,093,887</b>	<b>873,887</b>
<b>Expenditures</b>			
Capital outlay	975,802	2,024,515	1,048,713
Excess (deficiency) of revenues over expenditures	(755,802)	(930,628)	(174,826)
<b>Other financing sources</b>			
Transfers in	425,802	425,802	-
<b>Net change in fund balance</b>	<b>(330,000)</b>	<b>(504,826)</b>	<b>(174,826)</b>
Fund balance, beginning of year	2,737,648	2,737,648	-
<b>Fund balance, end of year</b>	<b>\$ 2,407,648</b>	<b>\$ 2,232,822</b>	<b>\$ (174,826)</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2004**

	<u>Budget Stabilization</u>	<u>Industrial Development</u>	<u>Public Safety</u>	<u>Cultural Fund</u>
<b>ASSETS</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 7,236	\$ 1,446,442	\$ 9,860	\$ 170,314
Investments	752,580	66,884	-	88,875
Accounts receivables	-	-	2,000	-
Due from other governments	-	-	44,787	1,204
Due from other funds	-	-	-	1,772
Due from component unit	-	450,000	-	-
Prepaid items	-	-	-	257
<b>Total assets</b>	<u>\$ 759,816</u>	<u>\$ 1,963,326</u>	<u>\$ 56,647</u>	<u>\$ 262,422</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 45	\$ 31,969	\$ 4,685
Accrued and other liabilities	-	-	-	41,766
Due to other funds	5,699	-	7,936	2,976
<b>Total liabilities</b>	<u>5,699</u>	<u>45</u>	<u>39,905</u>	<u>49,427</u>
<b>Fund balance</b>				
Reserved for				
Prepaid items	-	-	-	257
Unreserved				
Designated for subsequent years' expenditures	-	-	5,000	11,050
Undesignated	754,117	1,963,281	11,742	201,688
<b>Total fund balances</b>	<u>754,117</u>	<u>1,963,281</u>	<u>16,742</u>	<u>212,995</u>
<b>Total liabilities and fund balances</b>	<u>\$ 759,816</u>	<u>\$ 1,963,326</u>	<u>\$ 56,647</u>	<u>\$ 262,422</u>

<u>General</u>		<u>Total</u>	
<u>Government</u>			
\$	107,356	\$	1,741,208
	-		908,339
	-		2,000
	-		45,991
	-		1,772
	-		450,000
	-		257
<u>\$</u>	<u>107,356</u>	<u>\$</u>	<u>3,149,567</u>

\$	13,250	\$	49,949
	-		41,766
	888		17,499
<u></u>	<u>14,138</u>	<u></u>	<u>109,214</u>

			257
	42,200		58,250
	51,018		3,040,096
<u></u>	<u>93,218</u>	<u></u>	<u>3,040,353</u>
<u>\$</u>	<u>107,356</u>	<u>\$</u>	<u>3,149,567</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2004**

	<u>Budget Stabilization</u>	<u>Industrial Development</u>	<u>Public Safety</u>	<u>Cultural</u>
<b>Revenues</b>				
Federal sources	\$ -	\$ -	\$ 80,206	\$ -
State sources	-	-	8,314	-
Local sources	-	-	18,000	47,220
Charges for services	-	-	3,481	26,957
Contributions	-	-	-	18,546
Interest income	9,816	39,075	-	1,919
Other revenue	-	-	27,751	10,629
<b>Total revenues</b>	<u>9,816</u>	<u>39,075</u>	<u>137,752</u>	<u>105,271</u>
<b>Expenditures</b>				
Current expenditures				
General government	-	13,932	-	-
Public safety	-	-	92,537	-
Culture and recreations	-	-	-	287,743
Capital outlay	-	-	36,837	-
<b>Total expenditures</b>	<u>-</u>	<u>13,932</u>	<u>129,374</u>	<u>287,743</u>
Excess (deficiency) of revenues over expenditures	<u>9,816</u>	<u>25,143</u>	<u>8,378</u>	<u>(182,472)</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	-	144,582
Transfers out	(5,699)	(451,691)	(20,000)	(1,772)
<b>Total other financing sources (uses)</b>	<u>(5,699)</u>	<u>(451,691)</u>	<u>(20,000)</u>	<u>142,810</u>
<b>Net change in fund balance</b>	<u>4,117</u>	<u>(426,548)</u>	<u>(11,622)</u>	<u>(39,662)</u>
Fund balances, beginning of year	<u>750,000</u>	<u>2,389,829</u>	<u>28,364</u>	<u>252,657</u>
<b>Fund balances, end of year</b>	<u>\$ 754,117</u>	<u>\$ 1,963,281</u>	<u>\$ 16,742</u>	<u>\$ 212,995</u>

<b>General Government</b>	<b>Total</b>
\$ -	\$ 80,206
-	8,314
-	65,220
135,897	166,335
99,901	118,447
1,085	51,895
-	38,380
<b>236,883</b>	<b>528,797</b>

251,635	265,567
-	92,537
-	287,743
-	36,837
<b>251,635</b>	<b>682,684</b>
<b>(14,752)</b>	<b>(153,887)</b>

-	144,582
(123,552)	(602,714)
<b>(123,552)</b>	<b>(458,132)</b>
<b>(138,304)</b>	<b>(612,019)</b>
231,522	3,652,372
<b>\$ 93,218</b>	<b>\$ 3,040,353</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Budget Stabilization Special Revenue Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenue</b>			
Interest income	\$ 15,000	\$ 9,816	\$ (5,184)
<b>Other financing (uses)</b>			
Transfer out	<u>15,000</u>	<u>5,699</u>	<u>(9,301)</u>
<b>Net change in fund balance</b>	-	<b>4,117</b>	<b>4,117</b>
Fund balance, beginning of year	<u>750,000</u>	<u>750,000</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 750,000</u></u>	<u><u>\$ 754,117</u></u>	<u><u>\$ 4,117</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Industrial Development Special Revenue Fund**  
**For the Year Ended June 30, 2004**

	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>			
Interest income	\$ 65,000	\$ 39,075	\$ (25,925)
Other revenue	5,000	-	(5,000)
<b>Total revenues</b>	<u>70,000</u>	<u>39,075</u>	<u>(30,925)</u>
<b>Expenditures</b>			
General government			
Contractual services	13,000	13,000	-
Other charges	2,500	932	(1,568)
Capital outlay	54,500	-	(54,500)
<b>Total expenditures</b>	<u>70,000</u>	<u>13,932</u>	<u>(56,068)</u>
Net change in fund balance	-	25,143	25,143
<b>Other financing uses</b>			
Transfer out	500,000	451,691	(48,309)
<b>Net change in fund balance</b>	<u>(500,000)</u>	<u>(426,548)</u>	<u>73,452</u>
Fund balance, beginning of year	2,389,829	2,389,829	-
<b>Fund balance, end of year</b>	<u>\$ 1,889,829</u>	<u>\$ 1,963,281</u>	<u>\$ 73,452</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Public Safety Special Revenue Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Federal sources	\$ 71,700	\$ 80,206	\$ 8,506
State sources	10,000	8,314	(1,686)
Local sources	17,450	18,000	550
Charges for services	1,000	3,481	2,481
Other revenue	31,300	27,751	(3,549)
<b>Total revenues</b>	<u>131,450</u>	<u>137,752</u>	<u>6,302</u>
<b>Expenditures</b>			
Public safety			
Personnel	10,100	5,208	(4,892)
Contractual services	82,100	75,981	(6,119)
Commodities	13,350	9,863	(3,487)
Other expense	3,900	1,485	(2,415)
Capital outlay	22,000	36,837	14,837
<b>Total expenditures</b>	<u>131,450</u>	<u>129,374</u>	<u>(2,076)</u>
Net change in fund balance	-	8,378	8,378
<b>Other financing uses</b>			
Transfer out	20,000	20,000	-
Net change in fund balance	(20,000)	(11,622)	8,378
Fund balance, beginning of year	28,364	28,364	-
<b>Fund balance, end of year</b>	<u>\$ 8,364</u>	<u>\$ 16,742</u>	<u>\$ 8,378</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Cultural Special Revenue Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
State sources	\$ 258,700	\$ -	\$ (258,700)
Local sources	50,000	47,220	(2,780)
Charges for services	25,000	26,957	1,957
Contributions	25,000	18,546	(6,454)
Interest income	3,000	1,919	(1,081)
Other revenue	12,750	10,629	(2,121)
<b>Total revenues</b>	<u>374,450</u>	<u>105,271</u>	<u>(269,179)</u>
<b>Expenditures</b>			
Culture and recreation			
Personnel	125,800	124,519	(1,281)
Commodities	18,500	16,906	(1,594)
Communications	3,100	2,660	(440)
Contractual services	369,700	92,258	(277,442)
Other charges	37,350	50,900	13,550
Capital outlay	3,000	500	(2,500)
<b>Total expenditures</b>	<u>557,450</u>	<u>287,743</u>	<u>(269,707)</u>
Net change in fund balance	(183,000)	(182,472)	528
<b>Other financing sources (uses)</b>			
Transfer in	148,000	144,582	(3,418)
Transfer out	(1,500)	(1,772)	(272)
<b>Total other financing sources</b>	<u>146,500</u>	<u>142,810</u>	<u>(3,690)</u>
<b>Net change in fund balance</b>	<u>(36,500)</u>	<u>(39,662)</u>	<u>(3,162)</u>
Fund balance, beginning of year	252,657	252,657	-
<b>Fund balance, end of year</b>	<u>\$ 216,157</u>	<u>\$ 212,995</u>	<u>\$ (3,162)</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**General Government Special Revenue Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Charges for services	\$ 145,150	\$ 135,897	\$ (9,253)
Contributions	93,950	99,901	5,951
Interest income	-	1,085	1,085
<b>Total revenues</b>	<u>239,100</u>	<u>236,883</u>	<u>(2,217)</u>
<b>Expenditures</b>			
General government			
Personnel	14,750	6,437	(8,313)
Commodities	1,100	513	(587)
Contractual services	97,150	61,909	(35,241)
Other charges	183,450	182,776	(674)
<b>Total expenditures</b>	<u>296,450</u>	<u>251,635</u>	<u>(44,815)</u>
Net change in fund balance	(57,350)	(14,752)	42,598
<b>Other financing uses</b>			
Transfer out	(123,552)	(123,552)	-
<b>Net change in fund balance</b>	<u>(180,902)</u>	<u>(138,304)</u>	<u>42,598</u>
Fund balance, beginning of year	231,522	231,522	-
<b>Fund balance, end of year</b>	<u>\$ 50,620</u>	<u>\$ 93,218</u>	<u>\$ 42,598</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Debt Service Funds**  
**For the Year Ended June 30, 2004**

	<b>Parking Deck Bond Redemption Non-Taxable</b>	<b>Parking Deck Bond Redemption Taxable</b>	<b>Total</b>
<b>Revenues</b>			
Local sources	\$ 568,095	\$ 113,575	\$ 681,670
<b>Expenditures</b>			
Debt service			
Principal	85,000	25,000	110,000
Interest and fiscal charges	483,095	88,575	571,670
<b>Total expenditures</b>	<b>568,095</b>	<b>113,575</b>	<b>681,670</b>
<b>Net change in fund balance</b>	-	-	-
Fund balances, beginning of year	-	-	-
<b>Fund balances, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Parking Deck Bond Redemption Non-Taxable Debt Service Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Local sources	\$ 568,100	\$ 568,095	\$ (5)
<b>Expenditures</b>			
Debt service			
Principal	85,000	85,000	-
Interest and fiscal charges	483,100	483,095	(5)
<b>Total expenditures</b>	<u>568,100</u>	<u>568,095</u>	<u>(5)</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Parking Deck Bond Redemption Taxable Debt Service Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Local sources	\$ 113,600	\$ 113,575	\$ (25)
<b>Expenditures</b>			
Debt service			
Principal	25,000	25,000	-
Interest and fiscal charges	88,600	88,575	(25)
<b>Total expenditures</b>	<u>113,600</u>	<u>113,575</u>	<u>(25)</u>
<b>Net change in fund balance</b>	-	-	-
Fund balance, beginning of year	-	-	-
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Capital Projects Funds**  
**June 30, 2004**

	<u>Recaptured Grant Revolving Loan</u>	<u>Parking Deck Bond Construction Taxable</u>	<u>Parking Bond Construction Non-taxable</u>
<b>ASSETS</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 144,960	\$ 118,681	\$ 389,820
Investments	-	-	600,000
Taxes receivable	-	-	-
Special assessments receivable	-	-	-
<b>Total assets</b>	<u><u>\$ 144,960</u></u>	<u><u>\$ 118,681</u></u>	<u><u>\$ 989,820</u></u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 11,589	\$ 72,048
Advance from other funds	-	-	-
Deferred revenue	-	-	-
<b>Total liabilities</b>	-	11,589	72,048
<b>Fund balances</b>	<u>144,960</u>	<u>107,092</u>	<u>917,772</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 144,960</u></u>	<u><u>\$ 118,681</u></u>	<u><u>\$ 989,820</u></u>
			-
			-

<u>Capital Improvement Assessments</u>	<u>Opera House Renovation</u>	<u>Total</u>
\$ 1,336,404	\$ -	\$ 1,989,865
4,111	-	604,111
7,039	-	7,039
<u>431,104</u>	<u>-</u>	<u>431,104</u>
<u>\$ 1,778,658</u>	<u>\$ -</u>	<u>\$ 3,032,119</u>
\$ -	\$ -	\$ 83,637
118,830	-	118,830
<u>312,274</u>	<u>-</u>	<u>312,274</u>
431,104	-	514,741
<u>1,347,554</u>	<u>-</u>	<u>2,517,378</u>
<u>\$ 1,778,658</u>	<u>\$ -</u>	<u>\$ 3,032,119</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Capital Projects Funds**  
**For the Year Ended June 30, 2004**

	Recaptured Grant Revolving Loan	Parking Deck Bond Construction Taxable	Parking Deck Bond Construction Non-Taxable
<b>Revenues</b>			
Special assessments	\$ -	\$ -	\$ -
Federal sources	-	-	-
Contributions	-	-	-
Interest income	1,389	735	-
Other revenue	-	-	16,566
<b>Total revenues</b>	<b>1,389</b>	<b>735</b>	<b>16,566</b>
<b>Expenditures</b>			
Capital outlay	-	170,392	971,931
Excess (deficiency) of revenues over expenditures	1,389	(169,657)	(955,365)
<b>Other financing sources</b>			
Transfer in	-	-	-
<b>Net change in fund balance</b>	<b>1,389</b>	<b>(169,657)</b>	<b>(955,365)</b>
Fund balance, beginning of year	143,571	276,749	1,873,137
<b>Fund balance, end of year</b>	<b>\$ 144,960</b>	<b>\$ 107,092</b>	<b>\$ 917,772</b>

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<b>Capital Improvement Assessments</b>	<b>Opera House Renovation</b>	<b>Total</b>
\$ 162,834	\$ -	\$ 162,834
-	-	-
-	-	-
43,074	-	61,764
-	-	-
<b>205,908</b>	<b>-</b>	<b>224,598</b>
 106,730	 339,064	 1,588,117
99,178	(339,064)	(1,363,519)
 9,650	 451,691	 461,341
<b>108,828</b>	<b>112,627</b>	<b>(902,178)</b>
1,238,726	(112,627)	3,419,556
<b>\$ 1,347,554</b>	<b>\$ -</b>	<b>\$ 2,517,378</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Recaptured Grant Revolving Loan Capital Projects Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenue</b>			
Interest income	\$ 2,500	\$ 1,389	\$ (1,111)
<b>Expenditures</b>			
Capital outlay	<u>2,500</u>	<u>-</u>	<u>(2,500)</u>
<b>Net change in fund balance</b>	-	<b>1,389</b>	<b>1,389</b>
Fund balance, beginning of year	<u>143,571</u>	<u>143,571</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><b>\$ 143,571</b></u>	<u><b>\$ 144,960</b></u>	<u><b>\$ 1,389</b></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Parking Bond Construction Taxable Capital Projects Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenue</b>			
Interest income	\$ 2,000	\$ 735	\$ (1,265)
<b>Expenditures</b>			
Capital outlay	<u>250,000</u>	<u>170,392</u>	<u>(79,608)</u>
<b>Net change in fund balance</b>	<b>(248,000)</b>	<b>(169,657)</b>	<b>78,343</b>
Fund balance, beginning of year	<u>276,749</u>	<u>276,749</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><b>\$ 28,749</b></u>	<u><b>\$ 107,092</b></u>	<u><b>\$ 78,343</b></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget (GAAP Basis) and Actual**  
**Capital Improvement Assessments Capital Projects Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Special assessments	\$ 161,600	\$ 162,834	\$ 1,234
Federal sources	-	-	-
Interest income	30,000	43,074	13,074
<b>Total revenues</b>	<u>191,600</u>	<u>205,908</u>	<u>14,308</u>
<b>Expenditures</b>			
Capital outlay	256,950	106,730	(150,220)
<b>Excess (deficiency) of revenues over expenditures</b>	(65,350)	99,178	164,528
<b>Other financing sources</b>			
Transfer in	65,350	9,650	(55,700)
<b>Net change in fund balance</b>	-	108,828	108,828
<b>Fund balance, beginning of year</b>	1,238,726	1,238,726	-
<b>Fund balance, end of year</b>	<u>\$ 1,238,726</u>	<u>\$ 1,347,554</u>	<u>\$ 108,828</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Parking Bond Construction Non-Taxable Capital Projects Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Revenues</b>			
Interest income	\$ 5,000	\$ 16,566	\$ 11,566
<b>Expenditures</b>			
Capital outlay	<u>1,400,000</u>	<u>971,931</u>	<u>(428,069)</u>
<b>Net change in fund balance</b>	(1,395,000)	(955,365)	439,635
Fund balance, beginning of year	<u>1,873,137</u>	<u>1,873,137</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 478,137</u></u>	<u><u>\$ 917,772</u></u>	<u><u>\$ 439,635</u></u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget (GAAP Basis) and Actual**  
**Opera House Renovation Capital Projects Fund**  
**For the Year Ended June 30, 2004**

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
<b>Expenditures</b>			
Capital outlay	\$ 460,000	\$ 339,064	\$ (120,936)
Excess (deficiency) of revenues over expenditures	(460,000)	(339,064)	120,936
<b>Other financing sources</b>			
Transfer in	460,000	451,691	(8,309)
<b>Net change in fund balance</b>	-	112,627	112,627
Fund balance (deficit), beginning of year	(112,627)	(112,627)	-
<b>Fund balance (deficit), end of year</b>	<u>\$ (112,627)</u>	<u>\$ -</u>	<u>\$ 112,627</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2004**

	<b>Retiree Health Insurance</b>	<b>Police &amp; Fire Retiree Health Insurance</b>	<b>Municipal Garage</b>	<b>Total</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 173,512	\$ 978,895	\$ 1,236,270	\$ 2,388,677
Investments	792,752	-	-	792,752
Accounts receivable	-	-	3,978	3,978
Inventories	-	-	117,184	117,184
Prepaid costs and other assets	-	-	3,390	3,390
<b>Total current assets</b>	<b>966,264</b>	<b>978,895</b>	<b>1,360,822</b>	<b>3,305,981</b>
Noncurrent assets				
Capital assets	-	-	5,860,326	5,860,326
<b>Total assets</b>	<b>966,264</b>	<b>978,895</b>	<b>7,221,148</b>	<b>9,166,307</b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	-	-	711,533	711,533
Accrued and other liabilities	-	-	23,842	23,842
<b>Total current liabilities</b>	<b>-</b>	<b>-</b>	<b>735,375</b>	<b>735,375</b>
Noncurrent liabilities				
Compensated absences	-	-	32,524	32,524
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>767,899</b>	<b>767,899</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	-	-	5,860,326	5,860,326
Unreserved	966,264	978,895	592,923	2,538,082
<b>Total net assets</b>	<b>\$ 966,264</b>	<b>\$ 978,895</b>	<b>\$ 6,453,249</b>	<b>\$ 8,398,408</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2004**

	<b>Retiree Health Insurance</b>	<b>Police &amp; Fire Retiree Health Insurance</b>	<b>Municipal Garage</b>	<b>Total</b>
<b>Operating revenue</b>				
Interdepartmental	\$ 111,330	\$ 306,560	\$ 1,997,211	\$ 2,415,101
<b>Operating expenses</b>				
Personnel services	-	-	609,446	609,446
Commodities	-	-	397,487	397,487
Contractual services	-	-	70,814	70,814
Other charges	-	-	196,790	196,790
Benefit payments	52,977	-	-	52,977
Depreciation	-	-	766,403	766,403
<b>Total operating expenses</b>	<b>52,977</b>	<b>-</b>	<b>2,040,940</b>	<b>2,093,917</b>
<b>Operating income (loss)</b>	<b>58,353</b>	<b>306,560</b>	<b>(43,729)</b>	<b>321,184</b>
<b>Non-operating revenues</b>				
Local sources	-	-	225,000	225,000
Interest income	4,752	7,894	9,541	22,187
Other revenue	-	-	46,092	46,092
Gain on sale of capital assets	-	-	79,276	79,276
<b>Total non-operating revenues</b>	<b>4,752</b>	<b>7,894</b>	<b>359,909</b>	<b>372,555</b>
<b>Change in net assets</b>	<b>63,105</b>	<b>314,454</b>	<b>316,180</b>	<b>693,739</b>
<b>Net assets, beginning of year</b>	<b>903,159</b>	<b>664,441</b>	<b>6,137,069</b>	<b>7,704,669</b>
<b>Net assets, end of year</b>	<b>\$ 966,264</b>	<b>\$ 978,895</b>	<b>\$ 6,453,249</b>	<b>\$ 8,398,408</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2004**

	Retiree Health Insurance	Police & Fire Retiree Health Insurance	Municipal Garage	Total
<b>Cash flows from operating activities</b>				
Cash receipts from interfund services	\$ 111,330	\$ 306,560	\$ 1,997,226	\$ 2,415,116
Cash payments to suppliers for goods and services	-	-	2,150	2,150
Cash payments to employees for services	(52,977)	-	(614,215)	(667,192)
<b>Net cash provided by operating activities</b>	<b>58,353</b>	<b>306,560</b>	<b>1,385,161</b>	<b>1,750,074</b>
<b>Cash flows from non-capital financing activities</b>				
Other revenue	-	-	46,092	46,092
<b>Cash flows from capital and related financing activities</b>				
Capital contribution	-	-	225,000	225,000
Purchases of capital assets	-	-	(2,229,187)	(2,229,187)
Proceeds from sale of capital assets	-	-	259,154	259,154
<b>Net cash (used in) capital and related financing activities</b>	<b>-</b>	<b>-</b>	<b>(1,745,033)</b>	<b>(1,745,033)</b>
<b>Cash flows from investing activities</b>				
Interest received	4,752	7,894	9,542	22,188
Sale of investments	4,248	-	-	4,248
<b>Net cash provided by investing activities</b>	<b>9,000</b>	<b>7,894</b>	<b>9,542</b>	<b>26,436</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>67,353</b>	<b>314,454</b>	<b>(304,238)</b>	<b>77,569</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>106,159</b>	<b>664,441</b>	<b>1,540,508</b>	<b>2,311,108</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 173,512</b>	<b>\$ 978,895</b>	<b>\$ 1,236,270</b>	<b>\$ 2,388,677</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ 58,353	\$ 306,560	\$ (43,729)	\$ 321,184
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation	-	-	766,403	766,403
Changes in assets and liabilities				
Accounts receivables	-	-	15	15
Prepaid costs and other assets	-	-	(877)	(877)
Inventories	-	-	(27,263)	(27,263)
Accounts payable	-	-	695,381	695,381
Accrued and other liabilities	-	-	(4,769)	(4,769)
<b>Net cash provided by operating activities</b>	<b>\$ 58,353</b>	<b>\$ 306,560</b>	<b>\$ 1,385,161</b>	<b>\$ 1,750,074</b>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Balance Sheet**  
**Agency Funds**  
**June 30, 2004**

	<u>Senior Center</u>	<u>Tax Collection</u>	<u>Imprest Payroll</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 15,226	\$ 90,415	\$ 30,994	\$ 136,635
Taxes receivables	-	323,786	-	323,786
<b>Total assets</b>	<u>\$ 15,226</u>	<u>\$ 414,201</u>	<u>\$ 30,994</u>	<u>\$ 460,421</u>
<b>Liabilities</b>				
Accrued and other liabilities	\$ 15,051	\$ -	\$ 5,896	\$ 20,947
Due to other governments	175	414,201	25,098	439,474
<b>Total liabilities</b>	<u>\$ 15,226</u>	<u>\$ 414,201</u>	<u>\$ 30,994</u>	<u>\$ 460,421</u>

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Combining Statement of Changes in Assets and Liabilities**  
**All Agency Funds**  
**For the Year Ended June 30, 2004**

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<b>SENIOR CENTER</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 15,241	\$ 175	\$ 190	\$ 15,226
<b>Liabilities</b>				
Accrued liabilities	\$ 15,051	\$ -	\$ -	\$ 15,051
Due to other governmental units	190	175	190	175
<b>Total liabilities</b>	<b>\$ 15,241</b>	<b>\$ 175</b>	<b>\$ 190</b>	<b>\$ 15,226</b>
<b>TAX COLLECTION</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 76,080	\$ 18,063,357	\$ 18,049,022	\$ 90,415
Property taxes receivable	218,967	18,837,845	18,733,026	323,786
<b>Total assets</b>	<b>\$ 295,047</b>	<b>\$ 36,901,202</b>	<b>\$ 36,782,048</b>	<b>\$ 414,201</b>
<b>Liabilities</b>				
Due to other governmental units	\$ 295,047	\$ 19,212,264	\$ 19,093,110	\$ 414,201
<b>IMPREST PAYROLL</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 103,450	\$ 9,758,639	\$ 9,831,095	\$ 30,994
<b>Liabilities</b>				
Accrued liabilities	48,953	10,298,786	10,341,843	5,896
Due to other governmental units	54,497	25,098	54,497	25,098
<b>Total liabilities</b>	<b>\$ 103,450</b>	<b>\$ 10,323,884</b>	<b>\$ 10,396,340</b>	<b>\$ 30,994</b>
<b>TOTAL - ALL AGENCY FUNDS</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 194,771	\$ 27,822,171	\$ 27,880,307	\$ 136,635
Property taxes receivable	218,967	18,837,845	18,733,026	323,786
<b>Total assets</b>	<b>\$ 413,738</b>	<b>\$ 46,660,016</b>	<b>\$ 46,613,333</b>	<b>\$ 460,421</b>
<b>Liabilities</b>				
Accrued liabilities	\$ 64,004	\$ 10,298,786	\$ 10,341,843	\$ 20,947
Due to other governmental units	349,734	19,237,537	19,147,797	439,474
<b>Total liabilities</b>	<b>\$ 413,738</b>	<b>\$ 29,536,323</b>	<b>\$ 29,489,640</b>	<b>\$ 460,421</b>



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

November 19, 2004

The Honorable Mayor and  
Members of the City Commission  
City of Traverse City  
Traverse City County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Traverse City, Michigan*, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the *Traverse City Housing Commission* discrete component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on those financial statements insofar as it related to the amounts included for the *Traverse City Housing Commission* discrete component unit, is based on the report of the other auditors.

**Compliance**

As part of obtaining reasonable assurance about whether the *City of Traverse City, Michigan*, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Traverse City, Michigan*, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *City of Traverse City, Michigan* in a separate letter dated November 19, 2004.

This report is intended solely for the information and use of management, members of the City Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Lohman*

**CITY OF TRAVERSE CITY, MICHIGAN**  
**General governmental revenues by source**  
**General fund**  
**Last ten fiscal years**

<u>FISCAL YEAR</u>	<u>Taxes</u>	<u>Licenses and permits</u>	<u>Federal sources</u>	<u>State sources</u>	<u>Charges for services</u>	<u>Fines and forfeitures</u>	<u>Reimbursements</u>	<u>Other revenues</u>	<u>Transfer in</u>	<u>Total revenues</u>
1994-95	\$ 4,780,633	\$ 282,079	\$ -	\$ 1,515,465	\$ 427,094	\$ 76,460	\$ 181,751	\$ 1,242,092	\$ 493,075	\$ 8,998,649
1995-96	4,933,167	399,186	-	1,548,544	392,547	106,049	217,029	1,275,394	500,720	9,372,636
1996-97	5,232,075	390,588	-	1,663,180	381,075	90,061	199,171	1,308,503	482,359	9,747,012
1997-98	5,472,076	376,752	-	1,704,593	348,403	77,221	179,543	1,441,022	505,704	10,105,314
1998-99	5,749,266	351,469	-	1,711,130	364,874	66,972	253,292	1,613,225	512,139	10,622,367
1999-00	6,031,092	187,962	-	1,847,197	378,360	72,244	244,973	1,634,569	498,140	10,894,537
2000-01	6,235,342	143,359	-	1,800,418	450,204	104,741	234,915	1,810,342	583,702	11,363,023
2001-02	6,545,558	170,298	-	1,669,987	387,573	81,269	234,686	1,613,030	401,831	11,104,232
2002-03	6,853,268	182,636	31,706	1,578,468	395,835	75,881	188,986	1,592,377	247,185	11,146,342
2003-04	6,964,990	197,834	37,243	1,422,431	451,519	78,822	294,302	1,894,848	267,596	11,609,585

# CITY OF TRAVERSE CITY, MICHIGAN

## General governmental expenditures by function

### General fund

Last ten fiscal years

<u>FISCAL YEAR</u>	<u>General government</u>	<u>Public safety</u>	<u>Highways and street</u>	<u>Parks and recreation</u>	<u>Other</u>	<u>Transfer out</u>	<u>Total expenditures</u>
1994-95	\$ 1,115,056	\$ 4,235,786	\$ 401,382	\$ 882,422	\$ 1,069,163	\$ 1,153,445	\$ 8,857,254
1995-96	1,166,323	4,175,741	164,271	904,768	1,105,610	1,323,355	8,840,068
1996-97	1,211,277	4,332,577	279,571	950,239	1,171,660	1,678,051	9,623,375
1997-98	1,220,473	4,482,229	315,777	975,999	1,223,782	1,344,240	9,562,500
1998-99	1,307,921	4,519,806	27,640	1,037,238	1,468,123	1,931,131	10,291,859
1999-00	1,364,723	4,488,687	280,907	1,147,677	1,342,893	2,111,370	10,736,257
2000-01	1,434,684	4,725,452	348,424	1,200,482	1,488,486	1,733,387	10,930,915
2001-02	1,478,199	4,691,610	437,952	1,246,748	1,582,933	1,528,480	10,965,922
2002-03	1,535,166	4,937,169	361,728	1,344,120	1,701,434	1,396,721	11,276,338
2003-04	1,615,893	5,630,071	373,689	1,404,893	1,783,939	1,160,682	11,969,167

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Assessed and estimated actual value of taxable property**  
**Last ten fiscal years**

<u>FISCAL YEAR</u>	<u>Real property</u>		<u>Personal property</u>		<u>Total</u>		<u>Ratio of total assessed to total estimated actual value</u>
	<u>Assessed value</u>	<u>Estimated actual value</u>	<u>Assessed value</u>	<u>Estimated actual value</u>	<u>Assessed value</u>	<u>Estimated actual value</u>	
1994	\$ 305,578,900	\$ 611,157,800	\$ 36,218,600	\$ 72,437,200	\$ 341,797,500	\$ 683,595,000	50.00%
1995	319,452,510	638,905,020	40,119,000	80,238,000	359,571,510	719,143,020	n/a
1996	332,029,423	664,058,846	44,237,800	88,475,600	376,267,223	752,534,446	n/a
1997	345,883,565	691,767,130	51,824,371	103,648,742	397,707,936	795,415,872	n/a
1998	366,353,194	732,706,388	55,457,397	110,914,794	421,810,591	843,621,182	n/a
1999	475,181,171	950,362,342	60,168,800	120,337,600	535,349,971	1,070,699,942	n/a
2000	529,474,850	1,058,949,700	60,310,990	120,621,980	589,785,840	1,179,571,680	n/a
2001	576,913,753	1,153,827,506	63,151,000	126,302,000	640,064,753	1,280,129,506	n/a
2002	623,695,547	1,247,391,094	69,739,840	139,479,680	693,435,387	1,386,870,774	n/a
2003	667,927,062	1,335,854,124	70,023,030	140,046,060	737,950,092	1,475,900,184	n/a

**CITY OF TRAVERSE CITY, MICHIGAN**  
Debt service requirements to maturity

	Parking deck taxable		Parking deck non-taxable		Sewage disposal		Water plant		Primary government	Component unit Light and power		Component unit	Reporting entity
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total principal and interest	Principal	Interest	Total principal and interest	Total principal and interest
2004-05	\$ 5,000	\$ 478,893	\$ 5,000	\$ 87,200	\$ 900,786	\$ 814,901	\$ 150,000	\$ 109,350	\$ 2,551,130	\$ 295,000	\$ 22,654	\$ 317,654	\$ 2,868,784
2005-06	5,000	478,660	5,000	86,970	913,316	790,452	175,000	100,500	2,554,898	310,000	7,750	317,750	2,872,648
2006-07	40,000	478,428	130,000	86,720	928,456	765,482	175,000	90,000	2,694,086	-	-	-	2,694,086
2007-08	40,000	476,568	130,000	79,700	959,212	737,807	200,000	79,500	2,702,787	-	-	-	2,702,787
2008-09	30,000	474,708	140,000	72,420	976,642	706,732	200,000	67,500	2,668,002	-	-	-	2,668,002
2009-10	30,000	473,313	140,000	64,300	1,039,133	673,060	225,000	55,500	2,700,306	-	-	-	2,700,306
2010-11	55,000	471,918	120,000	55,900	1,084,194	635,100	225,000	42,000	2,689,112	-	-	-	2,689,112
2011-12	90,000	469,360	120,000	48,700	1,141,209	593,877	225,000	28,500	2,716,646	-	-	-	2,716,646
2012-13	125,000	465,175	125,000	41,500	1,206,055	548,912	250,000	15,000	2,776,642	-	-	-	2,776,642
2013-14	170,000	459,363	125,000	33,750	1,155,087	500,301	-	-	2,443,501	-	-	-	2,443,501
2014-15	215,000	451,458	125,000	25,875	1,224,662	452,389	-	-	2,494,384	-	-	-	2,494,384
2015-16	260,000	441,460	135,000	17,875	1,044,326	400,456	-	-	2,299,117	-	-	-	2,299,117
2016-17	305,000	429,110	140,000	9,100	1,087,243	353,984	-	-	2,324,437	-	-	-	2,324,437
2017-18	495,000	414,318	-	-	1,144,467	304,514	-	-	2,358,299	-	-	-	2,358,299
2018-19	550,000	390,063	-	-	1,201,690	251,296	-	-	2,393,049	-	-	-	2,393,049
2019-20	610,000	362,563	-	-	1,258,913	194,216	-	-	2,425,692	-	-	-	2,425,692
2020-21	675,000	331,757	-	-	1,316,137	133,159	-	-	2,456,053	-	-	-	2,456,053
2021-22	745,000	297,670	-	-	1,373,357	68,668	-	-	2,484,695	-	-	-	2,484,695
2022-23	825,000	259,675	-	-	-	-	-	-	1,084,675	-	-	-	1,084,675
2023-24	850,000	217,600	-	-	-	-	-	-	1,067,600	-	-	-	1,067,600
2024-25	850,000	174,250	-	-	-	-	-	-	1,024,250	-	-	-	1,024,250
2025-26	850,000	130,900	-	-	-	-	-	-	980,900	-	-	-	980,900
2026-27	850,000	87,550	-	-	-	-	-	-	937,550	-	-	-	937,550
2027-28	850,000	43,775	-	-	-	-	-	-	893,775	-	-	-	893,775
Total	\$ 9,520,000	\$ 8,758,535	\$ 1,440,000	\$ 710,010	\$ 19,954,885	\$ 8,925,306	\$ 1,825,000	\$ 587,850	\$ 51,721,586	\$ 605,000	\$ 30,404	\$ 635,404	\$ 52,356,990

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Revenue bond coverage**

	Gross revenue	Expenses	Net revenue available for debt services	Debt service requirements principal	Interest	Total	Coverage
1966-77 Electric Utility Bonds (Serviced by Traverse City Light and Power, a Component Unit)							
1994	\$ 14,075,488	\$ 12,768,583	\$ 1,306,905	\$ 185,000	\$ 133,639	\$ 318,639	410.15%
1995	14,711,908	12,678,475	2,033,433	195,000	122,185	317,185	6.41
1996	15,177,045	13,277,889	1,899,156	195,000	116,012	311,012	6.11
1997	15,546,564	12,812,273	2,734,291	205,000	102,743	307,743	8.88
1998	16,497,144	13,757,136	2,740,008	220,000	94,713	314,713	8.71
1999	17,390,752	14,196,507	3,194,245	225,000	90,437	315,437	10.13
2000	19,095,110	15,557,912	3,537,198	235,000	81,642	316,642	11.17
2001	19,383,292	15,798,532	3,584,760	245,000	71,617	316,617	11.32
2002	20,406,282	16,712,034	3,694,248	255,000	60,863	315,863	11.70
2003	22,390,615	19,106,163	3,284,452	280,000	36,388	316,388	10.38
2004	23,208,180	21,483,058	1,725,122	295,000	22,654	317,654	5.43
1964 and 1992 Water Bonds (Serviced by Water Department)							
1994	\$ 1,507,486	\$ 1,443,083	\$ 64,403	\$ 110,000	\$ 184,451	\$ 294,451	21.87%
1995	1,641,861	1,631,327	10,534	105,000	177,050	282,050	0.04
1996	1,678,746	1,475,181	203,565	105,000	175,650	280,650	0.73
1997	1,661,507	1,505,289	156,218	110,000	167,183	277,183	0.56
1998	1,938,966	1,512,270	426,696	125,000	79,691	204,691	2.08
1999	1,958,236	1,635,196	323,040	125,000	62,678	187,678	1.72
2000	1,949,146	1,622,419	326,727	125,000	144,851	269,851	1.21
2001	1,951,446	1,649,062	302,384	125,000	138,413	263,413	1.15
2002	2,210,939	1,741,640	469,299	125,000	131,788	256,788	1.83
2003	2,208,221	1,909,535	298,686	150,000	117,975	267,975	1.11
2004	2,078,220	1,946,220	132,000	150,000	109,350	259,350	0.51

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Property tax millage rates - all overlapping governments**  
**1990 through 2002**

<u>FISCAL YEAR</u>	<u>CITY</u>	<u>COUNTY</u>	<u>SCHOOL</u>	<u>OTHER</u>	<u>TOTAL</u>
1990	13.7575	6.2000	35.5300	6.4700	61.9575
1991	13.7575	6.2000	35.5600	6.3749	61.8924
1992	13.7575	6.1529	35.7600	6.3747	62.0451
1993	13.7575	5.7400	33.2600	5.8800	58.6375
1994 - Homestead	13.7575	5.7400	8.8000	5.8604	34.1579
1994 - Non-Homestead	13.7575	5.7400	26.8000	5.8604	52.1579
1995 - Homestead	13.7575	5.7400	8.8000	7.9559	36.2534
1995 - Non-Homestead	13.7575	5.7400	26.8000	7.9559	54.2534
1996 - Homestead	13.7575	5.7400	8.8000	7.9559	36.2534
1996 - Non-Homestead	13.7575	5.7400	26.8000	7.9559	54.2534
1997 - Homestead	13.7575	5.7400	8.8000	7.9559	36.2534
1997 - Non-Homestead	13.7575	5.7400	26.8000	7.9559	54.2534
1998 - Homestead	13.7575	5.6508	9.6000	8.7206	37.7289
1998 - Non-Homestead	13.7575	5.6508	27.4866	8.7206	55.6155
1999 - Homestead	13.7575	5.5666	9.1000	8.5118	36.9359
1999 - Non-Homestead	13.7575	5.5666	27.1000	8.5118	54.9359
2000 - Homestead	13.6199	5.4719	9.1000	8.5935	36.7853
2000 - Non-Homestead	13.6199	5.4719	27.1000	8.5935	54.7853
2001 - Homestead	13.5447	5.3931	9.1000	8.6003	36.6381
2001 - Non-Homestead	13.5447	5.3931	27.1000	8.6003	54.6381
2002 - Homestead	13.3943	5.3165	9.1000	8.5532	36.3640
2002 - Non-Homestead	13.3943	5.3165	27.1000	8.5532	54.3640
2003 - Homestead	13.2295	5.2112	8.1000	10.4245	36.9652
2003 - Non-Homestead	13.2295	5.2112	26.1000	10.4245	54.9652

Other: Includes Commission on Aging, Northwestern Michigan College, Intermediate School District and District Library.

The City's rate does not reflect a two mill levy the Downtown Development District established in 1979.

**CITY OF TRAVERSE CITY, MICHIGAN**  
**Property Tax Collection History**

Levied July 1st	Tax Levy (1)	Collection to March 1, Year Following Levy	Percent Collected	Collections Plus Funding to June 30, 2003	% Collected Plus Funding June 30, 2002
1997	\$ 5,404,980	\$ 5,131,446	94.9%	\$ 5,404,980	100.00%
1998	5,614,561	5,177,694	92.2	5,614,561	100.00
1999	6,071,833	5,882,146	96.9	6,071,833	100.00
2000	6,388,413	6,038,108	94.5	6,388,413	100.00
2001	6,479,826	6,178,793	95.3	6,479,827	100.00
2002	6,816,556	6,482,462	95.1	6,816,556	100.00
2003	7,434,195	7,077,146	95.2	7,434,195	100.00
2004	7,824,248	In process of collection			

(1) Real and personal taxes combined